SGI CANADA

2005 ANNUAL REPORT

SGI CANADA

–VISION–

We will become a leading national property and casualty insurer by offering competitive, high-quality products and services in partnership with our brokers.

–VALUES–

INTEGRITY
Conducting ourselves with honesty, trust and fairness.

CARING
Acting with empathy, courtesy and respect.

INNOVATION
Implementing creative solutions to achieve our vision.

ABOUT SGI CANADA

SGI CANADA is a dynamic and innovative company selling property and casualty insurance products in more than half of Canada's provinces. It currently operates as SGI CANADA in Saskatchewan, SGI CANADA Insurance Services Ltd. in Manitoba, the Coachman Insurance Company in Ontario and the Insurance Company of Prince Edward Island throughout the Maritimes. The company employs about 1,700 people and has its head office in Regina. Products are sold through a network of independent insurance brokers.

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LETTER of TRANSMITTAL

Regina, Saskatchewan

March, 2006

To Her Honour,
The Honourable Lynda Haverstock
Lieutenant Governor of the Province of Saskatchewan

Your Honour:

I have the honour to submit herewith the annual report of Saskatchewan Government Insurance for the year ended December 31, 2005, including the financial statements in the form required by the Treasury Board and in accordance with *The Saskatchewan Government Insurance Act.*

I have the Honour to be, Madam,

Your obedient Servant,

Glenn Hagel

Honourable Glenn Hagel
Minister Responsible for Saskatchewan Government Insurance

CHAIR'S LETTER

SGI CANADA refocused and re-energized itself in 2005 by developing and implementing a new vision to better guide the Corporation as it continues expanding across the country.

The new vision is: "We will become a leading national property and casualty insurer by offering competitive, high-quality products and service in partnership with our brokers."

I have the utmost confidence this will be achieved.

That's because the Corporation has a top-notch network of independent brokers and a dedicated team of employees. Both have worked hard in the Corporation's Saskatchewan, Manitoba, Ontario and Maritime operations. Thank you. I know you will do the same with the utmost professionalism as SGI CANADA enters new markets in 2006.

I would also like to thank the Board of Directors for their guidance, support and enthusiasm. Your work has helped SGI CANADA achieve a healthy financial position and put it well on its way to reach its vision.

Nancy E. Hopkins
Chair

PRESIDENT'S MESSAGE

Overall, 2005 was a good year for SGI CANADA as it posted the second largest profit in its history and continued to expand nationally to spread its risk, maintain and create jobs in Saskatchewan and increase profitability for its shareholders.

The Corporation, as it celebrated its 60th anniversary in 2005, earned a consolidated net income of more than $35 million, resulting in a consolidated return on equity of 29% – about 6% higher than the estimated industry average. In fact, the Corporation's average return on equity during the last 10 years is 20%, while the industry average is an estimated 14%. SGI CANADA's underwriting profit for the year was the largest in the Corporation's history at more than $17 million with almost half of that earned by the Corporation's expansion operations in Manitoba, Ontario and the Maritimes. Net premiums written totalled more than $286 million, which is an increase of more than $8 million or 3% from 2004. For 2005, SGI CANADA will pay a dividend of more than $22 million to its parent company, the Crown Investments Corporation of Saskatchewan.

These positive results were achieved despite one of the worst summers for severe weather on record in terms of claim costs in Saskatchewan. Severe weather contributed to $25.7 million in additional claim costs overall to the Corporation when compared to 2004. These strong financial results were also achieved in spite of a loss on an expired service agreement in SGI CANADA's Ontario subsidiary, the Coachman Insurance Company. Coachman has recorded a liability in 2005 of $9.7 million due to the bankruptcy of Budget Car Rentals Toronto Ltd.

While these two events were challenging, the Saskatchewan business and each of SGI CANADA's subsidiaries were profitable in 2005.

Coachman made a net profit of about $1 million – an increase from the previous year when it had a net income of $682,000 – contributed $4.7 million to the Corporation's $17 million record underwriting profit and earned $25.5 million in net premiums.

PRESIDENT'S MESSAGE

The Insurance Company of Prince Edward Island posted a record net income of $2.7 million and contributed more than $3.6 million to the underwriting profit, while SGI CANADA Manitoba made a net income of almost $350,000, as it weathered severe summer storms and the claims that followed in 2005. Saskatchewan operations experienced similar weather challenges and significant claims increases as a result, but posted a net income of more than $31 million.

This positive direction of SGI CANADA's subsidiaries indicates expansion is the best course for the Corporation. Continued growth to become a national insurance company spreads risk, maintains and creates jobs in Saskatchewan and increases profits for SGI CANADA's shareholders. By spreading risk, losses in one product or province can be made up through profit in another. The more business we write outside of Saskatchewan, the more financially stable the Corporation becomes. Although 2005 was one of the worst years for storms in Saskatchewan, the impact of that severe weather was cushioned for the Corporation because its operations outside of the province also made money. Forty-five per cent of the company's underwriting profit came from business written in other provinces, despite the fact that 84% of our premiums are written in Saskatchewan.

SGI CANADA needs to keep growing as a business. That's why the Corporation updated its vision statement to better reflect and focus where SGI CANADA wants to go. The new vision introduced in 2005 is: "We will become a leading national property and casualty insurer by offering competitive, high-quality products and services in partnership with our brokers." The vision is supported by four main strategies, which are competitive business, customer, people and business technologies. They're discussed in greater detail in the Management's Discussion and Analysis section of this report.

This new vision will guide SGI CANADA in 2006 when it anticipates selling insurance products in Alberta, which will give the Corporation a presence in seven Canadian provinces. Alberta expansion is a major step in diversifying SGI CANADA's policy base throughout the nation, creating more employment opportunities and returning more profits to shareholders. Business plans have also been developed to support more growth in Ontario and the Maritime provinces. Today SGI CANADA has about 16% of its business outside of Saskatchewan. By 2010, the Corporation hopes to have 35% of its business outside of Saskatchewan.

In 2005, the Crown Investments Corporation of Saskatchewan invested an additional $25 million in the company to support this growth and allow it to meet its capital target structure.

Across the country the employees of the Corporation and its network of independent brokers worked hard in 2005 to achieve these results. I am confident that their efforts will continue and therefore the future looks bright for SGI CANADA and its shareholders.

Jon Schubert
President

SGI CANADA OPERATING SEGMENTS

SGI CANADA moved beyond the borders of Saskatchewan to seek out new opportunities to strengthen the Corporation, diversify its risk, create and maintain jobs and increase profits.

SGI CANADA Manitoba began operating in 1993, while in 2001 the Corporation became the majority shareholder (75%) of the Insurance Company of Prince Edward Island in the Maritimes and also purchased 100% of the shares of the Coachman Insurance Company in Ontario.

Although these expansion operations in Manitoba, Ontario and the Maritimes represented only 16% of the Corporation's direct premiums in 2005, those same entities contributed to almost half – or about $7.6 million – of SGI CANADA's total underwriting profits of more than $17 million. This underwriting profit was a record for SGI CANADA and impressive, considering SGI CANADA experienced one of the worst summer storm seasons on record. It's also another indication why continued expansion will only strengthen the Corporation.

Today the Corporation, with its head office in Regina and strong roots in Saskatchewan, employs about 1,700 people and operates with a network of almost 280 independent brokers throughout Saskatchewan, along with 154 brokers in Manitoba, Ontario, Prince Edward Island, New Brunswick and Nova Scotia.

In 2005, CIC injected $25 million of equity into the Corporation. This equity will help continued expansion efforts in 2006 in Ontario, the Maritimes and the new Alberta market.

Coachman Insurance Company

Coachman had a net income of about $1 million in 2005, an increase from the previous year when it had a net income of $682,000.

This increase and improvements were in spite of a liability due to the bankruptcy of Budget Car Rentals Toronto Ltd., which once had a service agreement with Coachman.

Coachman also made more than $4.7 million in underwriting profit, which contributed significantly to SGI CANADA's overall record underwriting profit of more than $17 million.

In mid 2006, Coachman expects to improve home policies thanks to the work of the Coachman broker council, which was established in 2005. Coachman believes these improvements will make our products more attractive to customers and consequently increase business.

Coachman
INSURANCE COMPANY

Insurance Company of Prince Edward Island

The Insurance Company of Prince Edward Island (ICPEI) posted a record net income of more than $2 million – double the net income made in 2004 of just under $1 million.

ICPEI's loss ratio declined to 24% in 2005 from 63% in 2004. That was due to lower claims severity and volumes in 2005.

ICPEI also made more than $3.6 million in underwriting profit, which contributed significantly to SGI CANADA's overall record underwriting profit of more than $17 million.

ICPEI also moved into the New Brunswick and Nova Scotia markets in the fall of 2005 and began offering commercial property insurance. ICPEI was received well in those markets and will add auto and home products in those provinces in 2006.

The Insurance Company
Of Prince Edward Island
People you know you can trust

left to right: Ken Cochrane, of Hutchinson and Cochrane Insurance in Moncton, N.B., an ICPEI brokerage; Grace Parsons, SGI CANADA Assistant Vice President of Commercial Lines and Charlie Cooke, ICPEI President. The trio helped plant trees in the fall of 2005 in Point Pleasant Park, the jewel of the Halifax waterfront, which had 65,000 trees destroyed by Hurricane Juan in 2003. ICPEI helped raise money to reforest the park.

GROWING for SASKATCHEWAN'S FUTURE

SGI CANADA Manitoba

SGI CANADA Manitoba earned a net income of $344,000, which was less than 2004's net income of more than $1 million.

This lower net income is due to severe summer storm activity. Claim costs increased to more than $7 million in 2005, compared to more than $5 million in 2004.

The Corporation hopes for fewer storm-related claims in the future and is optimistic about its reappraisal project, which values homes more accurately, as it continues in 2006.

SGI CANADA started the program in 2005 because the cost of labour and materials to replace structures is increasing due to a housing boom and recent hurricanes in the United States. The Corporation decided it needed to calculate a more accurate replacement cost for the homes and other buildings it insures.

SGI CANADA Saskatchewan

SGI CANADA Saskatchewan earned a net income of more than $31 million in 2005, which was less than the $39 million net income in 2004.

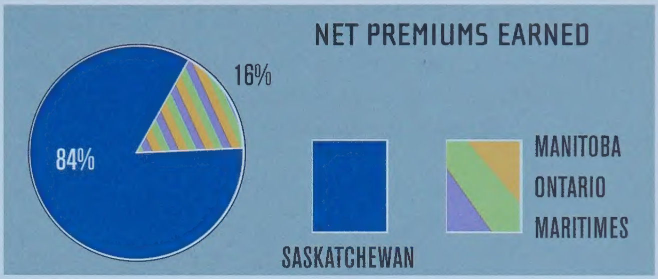
These are still superb results, considering claim costs increased by more than $17 million in 2005 due primarily to one of the most severe summer storm seasons on record.

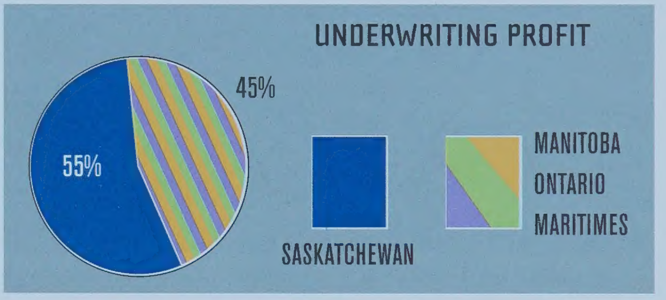
Average summer storm claim costs for the last 10 years for SGI CANADA in Saskatchewan has been about $7.6 million.

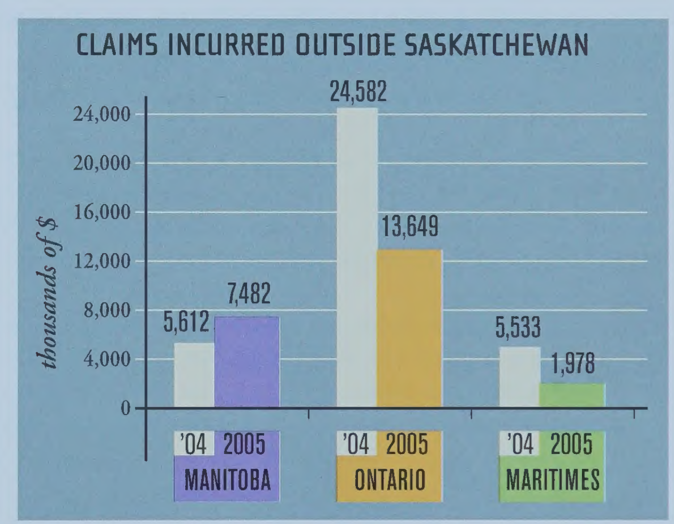
The Corporation hopes for fewer storm-related claims in the future and is excited about its home reappraisal project as it continues in 2006.

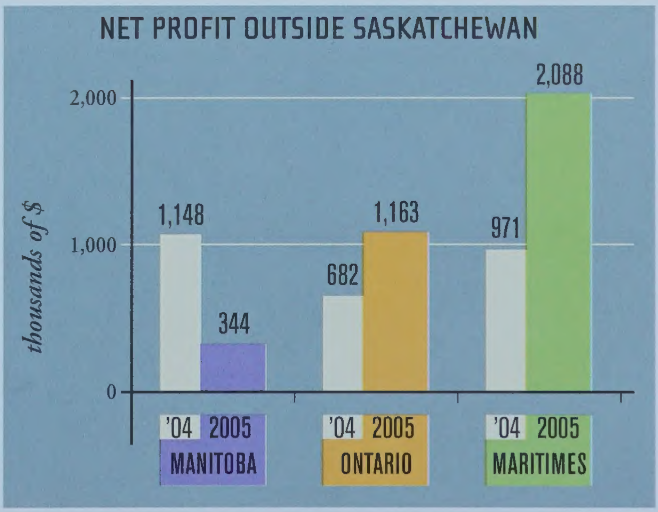
The program is similar to the one for SGI CANADA Manitoba operations.

The Corporation is also looking to maintain its Saskatchewan market share and to continue its program of responsible pricing and dependable service.









SGI CANADA in the COMMUNITY

SGI CANADA SUPPORTS LOCAL BROKERS

SGI CANADA was involved in many community events throughout 2005 as the Corporation celebrated its 60th anniversary and Saskatchewan had its Centennial.

The Corporation helped celebrate this special provincial birthday by hosting such events as the SGI CANADA Centennial Junior Order of Merit Golf Championship, becoming the official supplier of automotive insurance and licence plates to the 2005 Canada Summer Games in Regina and adding a second SGI CANADA parade float to keep up with community needs, as Centennial celebrations took place throughout Saskatchewan.

The Corporation also continued to support annual events, such as Saskatchewan-wide child restraint clinics and the SGI CANADA Charity Road Race.

These events showed SGI CANADA's continued support of its independent network of brokers and the communities where they do business.

These events also provided valuable information and resources, while at the same time building community spirit.

SGI CANADA CENTENNIAL JUNIOR ORDER OF MERIT GOLF CHAMPIONSHIP

To mark Saskatchewan's 100th birthday, the SGI CANADA Centennial Junior Order of Merit Golf Championship and tour was held.

This new event for the Corporation had SGI CANADA partner with the Saskatchewan Golf Association and the Insurance Brokers' Association of Saskatchewan for a series of junior golf tournaments throughout the summer.

More than 40 tournaments were held throughout the province as part of the Junior Order of Merit Tour.

The tour culminated in Regina on Aug. 29th where almost 120 top junior golfers showcased their talents in a championship tournament.

SGI CANADA in the COMMUNITY

SGI CANADA PARADE FLOATS

With 2005 marking Saskatchewan's Centennial and the Corporation celebrating its 60th birthday, requests poured in for SGI CANADA's float to appear in community parades.

More than 100 requests from insurance brokers meant SGI CANADA built a second float just to keep up with demand.

The Corporation was proud to be a visible part of more than 40 of these events to show that SGI CANADA supports its independent brokers and their communities.

CHILD RESTRAINT CLINICS

SGI CANADA has partnered with independent insurance brokers from across Saskatchewan for the past eight years to host free, drive-through clinics to educate people on proper installation of child restraints.

In 2005, 86 clinics were held in 56 communities and trained volunteers checked 2,500 car seats. More than 16,000 child restraints have been checked since 1998.

These important and valuable safety clinics require the ongoing co-operation of many different organizations, such as SGI CANADA brokers, health regions, the Insurance Brokers' Association of Saskatchewan, along with paramedic, firefighting and police services.

SGI CANADA CHARITY ROAD RACE

Since its inception in 2000, the SGI CANADA Charity Road Race has become a popular run in Saskatchewan.

The sixth annual race was held on June 5 in Regina where more than 300 participants from Saskatchewan, Manitoba, Alberta and British Columbia took part. The event featured a 10 and five kilometre race, along with a two kilometre family fun walk.

Since its inception, the race has raised more than $20,000 for Kids Help Phone in Saskatchewan, which provides 24-hour, toll-free, confidential and anonymous phone counselling, referral and Internet service for troubled and abused children and youth.

MANAGEMENT'S DISCUSSION and ANALYSIS

The following management's discussion and analysis (MD&A) is the responsibility of management and reflects events known to management to Feb. 22, 2006. The Board of Directors carries out its responsibility for review of this disclosure principally through its Audit and Finance Committee, comprised exclusively of independent directors. The Board of Directors approved this MD&A at its meeting on Feb. 22, 2006, after a recommendation to approve was put forth by the Audit and Finance Committee.

OVERVIEW

The MD&A is structured to provide users of SGI CANADA's financial statements with insight into SGI CANADA (denoted as the Corporation) and the industry in which it operates. This section contains its strategies and its capability to execute the strategies, key performance drivers, 2005 results, liquidity and capital, critical accounting estimates, upcoming changes in announced accounting policies, risk management and the outlook for 2006. Information contained in the MD&A should be read in conjunction with the consolidated financial statements, the notes to the consolidated financial statements, along with other sections in this annual report. All dollar amounts are in Canadian dollars.

The following table of contents provides a quick reference to the main sections within this MD&A.

WHERE SGI CANADA CAME FROM

In 1944, the Government of Saskatchewan passed *The Saskatchewan Government Insurance Act* creating the provincial Crown corporation that is known today as SGI. SGI was created to rectify problems in the Saskatchewan insurance industry. At that time, poor economic conditions had driven many insurers out of the province.

SGI's mandate since its inception has been to provide comprehensive, affordable insurance protection to the people of Saskatchewan. In 1980, legislated changes to *The Saskatchewan Government Insurance Act*, 1980 and *The Automobile Accident Insurance Act* distinguished between the compulsory provincial vehicle insurance program for the province (the Saskatchewan Auto Fund) and the competitive insurer which would offer additional property and casualty products (SGI CANADA).

SGI CANADA is the trade name that SGI operates under to provide competitive, quality property and casualty (P&C) insurance products in Saskatchewan. P&C product offerings include policies for auto, home, farm and commercial enterprises. In addition, SGI CANADA, through its subsidiary SGI CANADA Insurance Services Ltd., offers similar products in five (soon to be six) other provinces across Canada.

The SGI CANADA annual reports are available on its website at www.sgicanada.ca. Navigate to About SGI and then click on Financial Reports.

The operations in provinces outside Saskatchewan are important to the Corporation in order to spread risk, maintain and create jobs in Saskatchewan, and increase economic returns for SGI CANADA's shareholder, Crown Investments Corporation of Saskatchewan (CIC). In 1993, SGI CANADA Insurance Services Ltd., operating currently under the trade name SGI CANADA – Manitoba, began offering P&C insurance in Manitoba. In 2001, SGI CANADA Insurance Services Ltd. became the majority shareholder (75%) of the Insurance Company of Prince Edward Island (ICPEI) and also purchased 100% of the shares of Coachman Insurance Company (Coachman). Coachman operates solely in Ontario while ICPEI operates in Prince Edward Island, New Brunswick, and most recently, Nova Scotia. In 2006, SGI CANADA Insurance Services Ltd., will commence operations in Alberta offering a full package of P&C insurance products (auto, home, farm and commercial) to Albertans. Analysis of the expansion's impact is described in the section *Outlook for 2006.*

The Corporation is a provincial Crown corporation wholly owned by CIC. The following organization chart illustrates the Corporation's ownership structure:

Being a provincial Crown corporation, SGI CANADA is not subject to federal or provincial income taxes. Its subsidiaries are not provincial Crown corporations; thus they are subject to federal and provincial income taxes. The consolidated financial results of SGI CANADA are included in the consolidated financial statements of its parent company, CIC.

At Dec. 31, 2005, the Corporation employed approximately 1,700 people and operated with a network of 279 independent brokers throughout Saskatchewan, as well as 154 brokers operating in Manitoba, Ontario, Prince Edward Island, New Brunswick and Nova Scotia. SGI CANADA's corporate head office is located in Regina, Saskatchewan.

THE PROPERTY AND CASUALTY INSURANCE BUSINESS ENVIRONMENT [1]

At Sept. 30, 2005 Canada's highly competitive P&C industry had approximately 200 [2] private and government-owned insurers. The P&C industry covers all types of insurance other than life and health insurance. The automobile insurance sector was the largest contributor to premium volume to the industry (48%) followed by property (34%), liability insurance (14%) and other (4%).

Insurance is a mechanism for spreading risk, for sharing the losses of the few among the many. Insurance makes the life of an individual or business enterprise more stable by allowing people and businesses to engage in many ventures without having to set aside reserves to meet the financial requirements that may arise from certain types of losses. Insurance also facilitates the granting of credit by protecting the investments of both lenders and borrowers.

Insurance can be considered as a large pool into which policyholders place their premiums.[3] This pool provides for payment of losses suffered by those who have claims, and for the cost of running the insurance company. Sometimes total premiums are insufficient to pay claims and operating expenses, however, insurers also use investment earnings to pay claims and keep premiums lower than they might otherwise be.

P&C insurance companies are supervised and regulated at the federal and provincial levels. The federal regulator, the Office of the Superintendent of Financial Institutions, is responsible for the solvency and stability of P&C insurance companies registered federally. Provincial authorities supervise the terms and conditions of insurance contracts and the licensing of companies, agents, brokers and adjusters, along with monitoring the solvency and stability of provincially-registered companies. SGI CANADA's subsidiaries are provincially-regulated insurance companies.

[1] Adapted from "Facts About Property and Casualty Insurance In Canada" prepared by the Insurance Bureau of Canada, *Facts 2004*.

[2] P&C industry data obtained from MSA Researcher P&C database.

[3] This and other terms are defined in the glossary included in this annual report. The glossary begins on page 64.

Since automobile insurance is compulsory in Canada, unlike home and business insurance, it is the most regulated area that P&C companies operate within. Regulation of premium rates is based on claims and other costs of providing insurance coverage, as well as projected profit margins. Regulatory approvals can limit or reduce premium rates that can be charged, or delay the implementation of changes in rates. The Corporation's automobile premiums are subject to rate regulation in Ontario, Prince Edward Island, New Brunswick and Nova Scotia, which represent approximately 9% of the consolidated net premiums earned in 2005.

With net premiums written exceeding $23.9 billion at Sept. 30, 2005 and control of investment assets of $62.0 billion, the industry is a major part of the social and economic fabric of Canada. P&C insurers invest mainly in domestic government bonds, corporate bonds, preferred shares and common stocks. These investments are secure financial instruments that produce a steady flow of income. Government regulations are in place for the P&C industry that require these investments to be made using a prudent person's viewpoint.

The P&C industry also utilizes reinsurance. Reinsurers, most of whom are international organizations, spread their risks by supporting cedant insurers in several countries and in many regions around the world. Insurance companies pay premiums to reinsurers in exchange for an agreement to have a proportion of their claims paid for them, particularly in the event of a major loss or catastrophe. Reinsurance is one of many tools used by insurers to guarantee that they will meet every obligation to pay legitimate claims. Recent disasters around the world have led to a decline in the amount of reinsurance available to insurers. As a result, Canadian insurance companies have had to pay higher prices for reinsurance.

Unlike the prices of other goods and services, P&C insurance premiums do not necessarily keep pace with the general rate of inflation. In most other businesses, the costs of producing and selling a product are known before the price is determined; but P&C insurance is priced before the costs are known. Insurance companies do not know ahead of time how much it may cost to repair a house or a car; nor do they know definitely that they will be called upon to do so.

The Property and Casualty Insurance Compensation Corporation (PACICC), a non-profit entity, was formed in 1988 to provide a reasonable level of recovery for policyholders and claimants under most policies issued by P&C companies in Canada in the unlikely event of the failure of a Canadian P&C company. The maximum amount a policyholder could recover from PACICC is $250,000 in respect of all claims arising from each policy issued by the insolvent insurer, and arising from a single occurrence. Policyholders may also claim 70% of unearned premiums that have been paid in advance to a maximum of $700 per policy.

Membership in PACICC is compulsory for most P&C insurers in Canada. SGI CANADA, SGI CANADA Insurance Services Ltd., Coachman and ICPEI are all members of PACICC. Members have contributed funds to PACICC so there is money available to pay claims immediately in the event of an insolvency occurring in the industry. Member insurers will provide additional funds, as required, to maintain PACICC. For more information on PACICC, visit its website at www.pacicc.com.

STRATEGIC DIRECTION

In 1999, CIC and its subsidiaries developed a Crown Sector Strategic Plan to provide long-term direction to the Crown sector and facilitate long-term strategic planning. The plan includes a consistent vision statement for the Crown sector, its primary business purposes, common business values and strategic business objectives. The Corporation's strategic plan supports CIC's long-term direction for the Crown sector and overall Crown sector strategic objectives.

During 2005 SGI CANADA updated its vision statement to reflect the Corporation's new strategic direction. The new vision statement is introduced in the President's message and is further discussed in this MD&A in the section, *Outlook for 2006*. The previous vision statement served the Corporation well in the past, but did not reflect its new strategic direction. While the vision has changed in 2006, the values under which the Corporation operates have not. The Vision and Values under which SGI CANADA operated during 2005 were as follows:

THE VISION THROUGH 2005

As a Saskatchewan-based insurance company we will set the industry standard for being highly valued by our customers.

Values

Integrity
Conducting ourselves with honesty, trust and fairness

Caring
Acting with empathy, courtesy and respect

Innovation
Implementing creative solutions to achieve our vision

CORPORATE STRATEGIES

The overriding strategic goals through 2005 were to maintain Saskatchewan market share and profitability while expanding operations in other Canadian provinces.

SGI CANADA's rationale for growth outside Saskatchewan is to spread geographic risk, create and maintain jobs in Saskatchewan and return a profit to its shareholder. Growth is important because writing business solely in one geographic location (Saskatchewan) presents a significant risk exposure for an insurance company. Further growth opportunities within Saskatchewan, from an insurance perspective, are limited. It is, therefore, critical to the long-term success of SGI CANADA to continue to increase premium revenue profitably from outside Saskatchewan.

To meet its overriding strategic goals, the Corporation's main areas of strategic focus were as follows:

- Competitive Business;
- Customer;
- People; and
- Business Technologies.

The four areas above are crucial to SGI CANADA's success. Within these four areas, the Corporation has various strategic initiatives and has developed key targets to measure performance. The Corporation uses a Balanced Scorecard to monitor its performance and results. The Balanced Scorecard objectives are to provide a balanced evaluation of key operations and financial results, activities and achievements with both a short- and long-term focus. The following discusses key initiatives in each of the four areas of strategic focus, as well as the related key performance indicators from the Balanced Scorecard.

Competitive Business

Key to the Corporation's success is its ability to grow while maintaining profitability in a highly competitive industry. Operations in provinces outside Saskatchewan continue to be crucial to SGI CANADA's growth strategy. Also, the strategy includes maintaining the Corporation's large market share within Saskatchewan. Losses in one product or province can be made up through profits in other products and in other provinces. It is a basic business principle for insurance companies to lessen the impact of significant losses by having diversified operations – both geographically and in product mix. For instance, in 2005 both Saskatchewan and Manitoba operations suffered from one of the worst summer storm seasons on record, while Ontario and Maritime operations posted strong underwriting results. It is important to continue to spread risk, although it is understood that it is not always possible for all segments or markets to be profitable each year. One measure for geographic diversification is the percentage of business written outside Saskatchewan. At Dec. 31, 2005, approximately 16% of direct premiums written were from outside Saskatchewan.

To be competitive in the P&C insurance industry in Canada, adequate capitalization is critical. This is not only important from a regulatory perspective, but to allow the Corporation to be flexible in its product offerings in a competitive marketplace. SGI CANADA's main sources of equity are from retained earnings and capital from its parent, CIC. In 2005, CIC provided the Corporation $25 million as an additional equity injection, of which $21 million was allocated to SGI CANADA Insurance Services Ltd. to provide the capital base to enter the Alberta P&C market in 2006. The remaining $4 million was allocated to Coachman to support growth in Ontario. During the first quarter of 2005, SGI CANADA Insurance Services Ltd. advanced $1 million equity to Coachman, for total new capital in Coachman during 2005 of $5 million.

In order to obtain the additional equity injection from CIC, extensive research was performed and detailed business plans were developed for expansion into Alberta and continued growth in Ontario. An independent third party completed assessments of both plans and found the business plans supported the injection of additional capital as proposed. These capital advances were critical to SGI CANADA's ability to meet its expansion plans and allowed the Corporation to meet its net risk ratio and minimum capital test targets as discussed below.

While growth is key to long-term success, the Corporation overall must be profitable in order to sustain growth. To this extent, the Corporation first recognizes that it cannot lose sight of the Saskatchewan marketplace, the market where its success developed and that represents over 80% of overall premium base. SGI CANADA strives to continue to grow profitable lines of business in Saskatchewan while maintaining its market share there.

Profitable underwriting is dependent on a disciplined underwriting approach. While the highly competitive market over the last several years has put pressure on the underwriting margins of the Corporation and all insurance companies', historically SGI CANADA has been very successful at underwriting. Its success comes from two areas: (1) a large database of information in its underwriting system that allows it to properly assess risks, and (2) committed and experienced employees and brokers. As well, effective utilization of reinsurance has been important as it allows the Corporation to write additional business without having to increase its capital base. Reinsurance also sets a maximum dollar limit on exposure to a claim or on a series of claims occurring from a common incident or catastrophe. As illustrated on page 16, over the past 10 years, the Corporation's average return on equity and combined ratio have been better than the industry average.

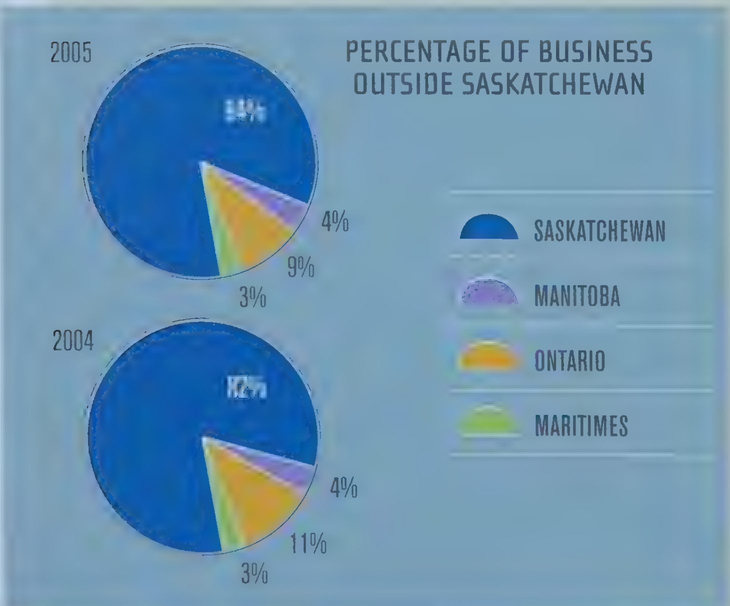
SGI CANADA uses a number of key performance indicators in its Balanced Scorecard to monitor the above initiatives to ensure that it is on course with its strategies:

Measure	2005 Target	2005 Results	2006 Target
Percentage of business outside Saskatchewan	19% of direct premiums written from out-of-province	◯ 16% of direct premiums written were from out-of-province	20% of direct premiums written from out-of-province
Net Risk Ratio (consolidated entity)	2.0	● 2.0	2.0
Minimum Capital Test (consolidated entity)	Be at the industry average	● 255%	Be at the industry average
Combined ratio (consolidated entity)	Less than 100%	● 94%	Less than 100%
Return on Equity (consolidated entity)	Be in the top quartile of ROE's for P&C industry	* 29%	Be in the top quartile of ROE's for P&C industry

Legend: ● achieved ◯ partially achieved ⃠ did not achieve

* industry data for 2005 not available

Percentage of Business Outside Saskatchewan
The percentage of business outside Saskatchewan measures the Corporation's success in diversifying its operations. The following chart indicates the percentage of business by province based on direct premiums written (excluding Facility Association participation):



While SGI CANADA has not yet met its target of 19%, it maintained its positions in Manitoba and in the Maritimes. Through ICPEI, it commenced operations in Nova Scotia late in 2005 and expects to grow operations in both Nova Scotia and New Brunswick in 2006.

The decrease in the Ontario market reflects a decline in automobile premiums largely due to increased competitive pressures in that market. In 2005, the Corporation was willing to give up market share to avoid writing unprofitable business. It has developed a detailed business plan for 2006 which includes several changes to address declining policy counts.

The other significant growth area for 2006 will come from commencing operations in Alberta, with a full package of P&C insurance products for Albertans. The 2006 target for direct premiums written outside Saskatchewan is 20%.

Net Risk Ratio

The Net Risk Ratio (NRR) is an indicator of the financial strength of a company in relation to the insurance business that it retains after reinsurance. It is calculated as the ratio of net premiums written to ending equity. The regulatory maximum is 3.0 which means a company can have up to three times more in net premiums written compared to equity. A lower ratio indicates that a company's financial resources would be better able to withstand an adverse underwriting result. Generally in the industry, an NRR of 2.0 is considered to represent a healthy capital position and is used as the target in SGI CANADA's Balanced Scorecard. While 2005 industry results are not currently available, industry average NRR at Dec. 31, 2004 was 1.8.

The following table indicates the NRR by operating segment:

Company	Dec. 31, 2005	Dec. 31, 2004
SGI CANADA (consolidated)	2.0	2.7
SGI CANADA Insurance Services Ltd. (consolidated)	0.9	3.5
Coachman	1.5	2.7
ICPEI	1.2	1.6

The above table indicates that the Corporation's consolidated NRR is on target at the end of 2005. This is a significant improvement from the NRR of 2.7 in 2004. The improvement is a result of consistent premium growth, continuing strong profitability as well as the $25 million capital injection received from CIC. The NRR is below 2.0 for all operating segments outside Saskatchewan. This indicates good financial strength at the end of 2005 and is consistent with the results of the MCT test as discussed below. The Balanced Scorecard objective for the NRR measure remains at 2.0 for 2006.

Minimum Capital Test

The Minimum Capital Test (MCT) is a regulatory measure used to assess a company's financial strength. The MCT is a risk-based capital adequacy framework that assesses the riskiness of assets, policy liabilities and off-balance sheet exposures by applying varying factors. From these calculations comes a ratio of capital available to capital required. The regulatory minimum for this ratio is 150%. That is, capital available has to be at least 50% more than capital required. The 50% cushion provides comfort for insurers to cope with volatility in markets and economic conditions, innovations in the industry, consolidation trends, international developments and to provide for risks not explicitly addressed including those related to systems, data, fraud, legal and other risks. The industry average at Dec. 31, 2005 is not yet available, however the MCT was 232% at Dec. 31, 2004.

The following table shows MCT results by legal entity:

Company	Dec. 31, 2005	Dec. 31, 2004
SGI CANADA (consolidated)	255%	184%
SGI CANADA Insurance Services Ltd. (consolidated)	312%	112%
Coachman	170%	142%
ICPEI	417%	313%

On a consolidated basis SGI CANADA's MCT is higher than the industry average at the end of 2004, and all companies within the Corporation are above the regulatory requirement of 150% at Dec. 31, 2005. This suggests that each of SGI CANADA's companies is in a strong financial position at the end of 2005.

Coachman, and consequently SGI CANADA Insurance Services Ltd., suffered from a poor MCT in 2004. In addition to maintaining profitable results, the improved MCT is a result of the additional capital injection from CIC of which $21 million was allocated to SGI CANADA Insurance Services Ltd. to provide the capital base to enter the Alberta P&C market. The remaining $4 million was allocated to Coachman to support its growth in Ontario. As well, during the first quarter of 2005, SGI CANADA Insurance Services Ltd. advanced $1 million to Coachman, for total new capital in Coachman during 2005 of $5 million.

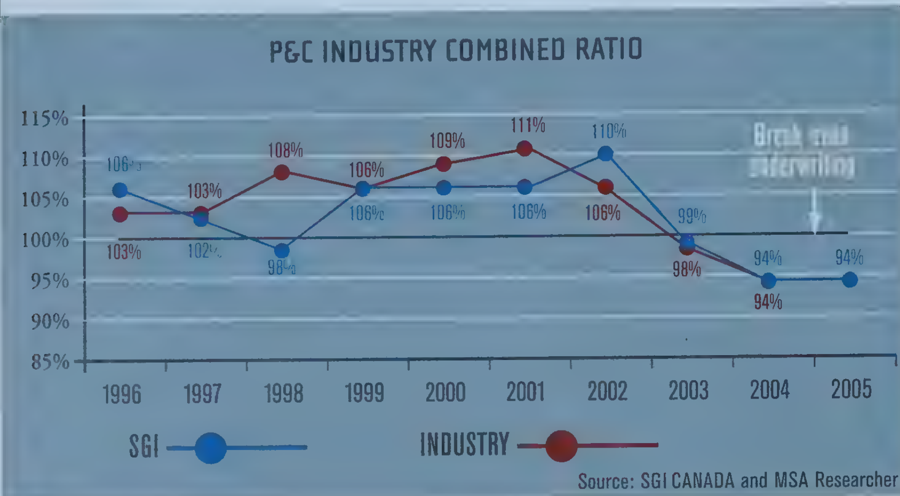
The strong MCT scores indicate that SGI CANADA is well capitalized. SGI CANADA Insurance Services Ltd.'s improved MCT indicates that it is adequately capitalized to support the Corporation's expansion plans for Alberta, Ontario and the Maritimes.

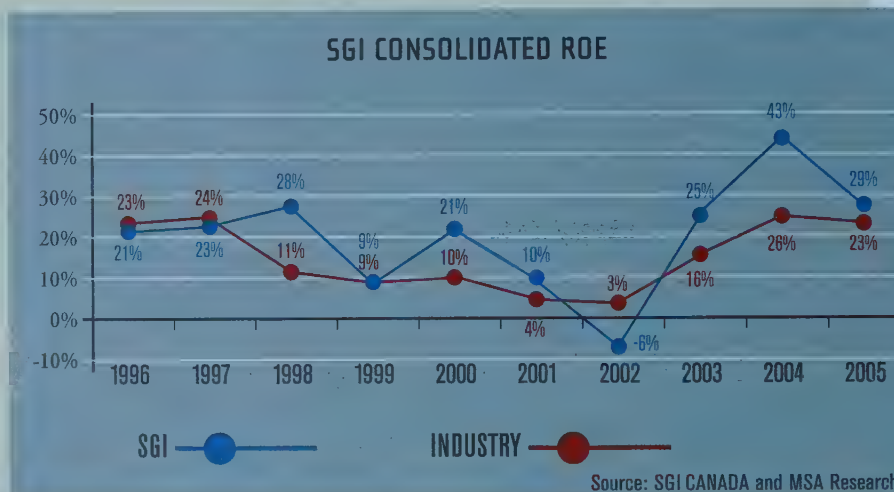
For 2006 the target again is for each legal entity of the Corporation to have a MCT at the average of the industry.

Combined Ratio

This ratio is a key profitability measure for the Corporation. It measures the underwriting profit or loss for a company for a period of time. The combined ratio is calculated as total expenses (claims and administration not including income taxes and minority interest) divided by net premiums earned. Insurance companies attempt to achieve a ratio of less than 100%, which represents an underwriting profit.

Prior to 2003, the combined ratio for the P&C industry has exceeded 100% as noted in the following chart. With the exceptions of 1996, 2002 and 2003, SGI CANADA has maintained a combined ratio the same as, or lower than, the industry average in each of the last 10 years. The Corporation's average combined ratio over the period 1996 – 2005 is 102% compared to 104% for the industry overall.





SGI CANADA's consolidated combined ratio for 2005 was 94%, consistent with 2004. It has exceeded its target of being lower than 100% and in doing so has generated a profit from underwriting activities for the year. This is the third consecutive year that SGI CANADA has achieved a profit from its core activity of underwriting insurable risks. The details of SGI CANADA's results of operations and how it achieved an underwriting profit in 2005 are discussed in the following section, *2005 Financial Results*. The 2006 target continues to be a consolidated combined ratio below 100%.

Return on Equity

Return on Equity (ROE) indicates the annual return on the investment made by SGI CANADA's shareholder. It is calculated as the ratio of income before income taxes to the average equity for the year. The Corporation targets consolidated ROE for each year to be in the top quartile of the Canadian P&C industry.

The industry ROE for the year is estimated to be 22.6% based on data available to the end of the third quarter of 2005, the most recent time period available. For the year ended Dec. 31, 2005, SGI CANADA's consolidated ROE was 29%, 6% higher than the industry average. The 10-year average ROE is 20.2% while the industry averaged 14.9% for the same time period.

The above analysis indicates that SGI CANADA has been earning an above average ROE overall. However, the Corporation understands that it won't be able to exceed the industry every year, such as can be seen in 1996, 1997 and 2002. Continued geographic diversification will help the Corporation limit its insurance risk in any one geographic area. For instance, as explained in the following section, *2005 Financial Results*, 2005 was one of the worst years SGI CANADA has experienced for claims from severe summer storms in Saskatchewan, yet combined with profitable results outside Saskatchewan, the company was still able to maintain a strong ROE.

The target for 2006 continues to be that consolidated ROE will be in the top quartile for P&C insurers in Canada.

Customer

In addition to its policyholders, SGI CANADA considers its customers to be the independent insurance brokers which it partners with to sell its products. The Corporation supports them by providing underwriting expertise and self-service capabilities through its broker web interfaces. SGI CANADA works closely with its brokers to obtain input and advice on the changing needs of policyholders.

Claims handling is completed internally as SGI CANADA is committed to providing high levels of customer service. This is based on the belief that personal service in handling claims results in better service to the policyholder and better control over claim costs.

SGI CANADA uses a number of key performance indicators in its Balanced Scorecard to monitor customer initiatives to ensure it is on course with its strategies and in meeting the needs of both its brokers and policyholders:

Measure	2005 Target	2005 Results	2006 Target
Broker satisfaction survey – Saskatchewan	90% of brokers rate SGI CANADA same or better than competition	● 94% satisfaction with SGI CANADA	90% of brokers rate SGI CANADA same or better than competition
Broker satisfaction survey outside Saskatchewan	Establish benchmark	● Benchmark established: 90% of brokers rate SGI CANADA - Manitoba, Coachman or ICPEI same or better than competition	90% of brokers rate SGI CANADA - Manitoba, Coachman or ICPEI same or better than competition
Saskatchewan claims customer survey	94% satisfaction level	○ 91% satisfaction level	94% satisfaction level

Legend: ● achieved ○ partially achieved ⃠ did not achieve

Satisfaction Surveys – Brokers and Claimants
SGI CANADA conducts an annual survey in December with its brokers to determine the level of satisfaction they have with the services the Corporation provides to them. It strives for at least 90% of brokers rating SGI CANADA the same or better than the competition. In 2005 the Corporation developed benchmarks for the provinces outside Saskatchewan it operates in. For 2005, SGI CANADA achieved its target with a 94% satisfaction rating from Saskatchewan brokers, a 1% increase from 2004 survey results. The target for 2006 is a 90% broker satisfaction level in all provinces in which it operates.

The Corporation also conducts semi-annual surveys with claims customers to ensure it is meeting their needs. The target is a 94% approval rating from Saskatchewan claims customers. The latest 2005 survey results indicated a 91% satisfaction level, 3% lower than the target. The target for 2006 remains a 94% satisfaction level and the Corporation is working hard to achieve it.

People

SGI CANADA places a great deal of importance on the continual education and training of its employees. Both technical and customer service training are emphasized. Providing these tools to employees leads to high-value customer service from employees who have the expertise to properly underwrite risks and adjust claims. Training is evaluated on an ongoing basis to ensure it provides employees with the enhanced skills required for them to help in achieving the Corporation's vision.

Operations in provinces outside Saskatchewan also benefit employees at SGI CANADA, as they have the opportunity to add to their expertise in the insurance industry by gaining experience in other markets. In turn, having employees with a high level of knowledge and experience is beneficial to the Corporation.

The key performance indicators in the Balanced Scorecard to monitor these initiatives are:

Measure	2005 Target	2005 Results	2006 Target
Front-line staff receive customer experience training	All front-line staff receive this training	● 100% front-line staff have been trained	Train new employees
Training dollars per employee	$500	● $832 spent per employee	$500
Employee engagement	Select and implement new employee survey	● An employee survey was conducted in the fall of 2005	Develop and implement action plans based on results from survey. A follow up survey is planned for 2007.

Legend: ● achieved ○ partially achieved ⃠ did not achieve

Business Technologies

A common pillar supporting all corporate strategies and initiatives is business technologies. The Corporation needs its computer systems available in order to operate its business. If these systems were unavailable for a significant amount of time, the business would suffer. To reduce the amount of potential down time, the Corporation has an agreement with a related party that provides alternative computing services in the event its systems are unavailable for a significant amount of time.

The key performance indicator in the Balanced Scorecard to monitor the above initiative is:

Measure	2005 Target	2005 Results	2006 Target
Availability of business systems	99.5% of designated hours of operation	● 99.5% of designated hours of operation	99.5% of designated hours of operation

Legend: ● achieved ○ partially achieved ⃠ did not achieve

Availability of business systems

This measures SGI CANADA's success in having its computer business systems available for use by staff and brokers during specific hours of the day and for specific days of the week. For 2005, SGI achieved its target of 99.5% availability for use. The target for 2006 is the same as 2005 and reflects the importance to operations of maintaining the availability of computer systems.

CAPABILITY TO EXECUTE STRATEGIES

Fundamental to the capability to execute corporate strategies, manage key performance drivers and deliver results are the Corporation's employees, brokers, technology and financial capital. They are discussed further below:

Employees

SGI CANADA's management team is experienced with, and knowledgeable about the Canadian P&C insurance market. Many employees are long term with an average term of 17 years of employment, and staff turnover rate for the last five years has averaged 4%. Due to this long tenure and low turnover, the Corporation has significant expertise in the core areas of its business, underwriting and claims handling, as well as within its support areas. This expertise has contributed to SGI CANADA's superior loss ratio and combined ratio in the Saskatchewan market compared to the insurance industry overall. This expertise is also crucial to success in markets outside Saskatchewan. Maintaining this expertise is key to meeting the challenges that will present themselves in the future.

SGI CANADA is projecting a significant level of retirements in the near future as a large portion of its workforce reaches retirement age. In fact, over 680 employees are expected to retire, or be eligible for retirement, by 2015. The challenge is to recruit and retain the best people to ensure the longevity, growth and maintenance of SGI CANADA's competitive position for the future. The Corporation is transitioning its succession plan to a workforce-planning model that will include aboriginal employment, youth employment, management development and expanded performance management strategies. This model will assist in transitioning expertise as retirements occur.

The Corporation and Saskatchewan Insurance, Office and Professional Employees' Union, Local 397 (COPE 397) signed a new three-year Collective Bargaining Agreement (CBA), running from Jan. 1, 2004 to Dec. 31, 2006, in June 2005. The CBA covers the majority of non-management staff employed by the Corporation. The Corporation has not had a work stoppage since 1948 and it will continue to work with COPE 397 to ensure that this record continues into the future.

Brokers

SGI CANADA sells its products through a network of 279 independent brokers throughout Saskatchewan and 154 brokers throughout the rest of Canada. In order to continue delivering insurance products that customers desire, SGI CANADA works closely with its brokers to obtain input and advice on the changing needs of customers. With the assistance of its brokers, SGI CANADA is able to take a lead in delivering innovative insurance products to its customers.

SGI CANADA's brokers are well known in the communities in which they operate and they actively promote the Corporation's products and services. To support its brokers, the Corporation is continually enhancing its broker web interfaces to make it easier for them to promote our products and to provide them with the self-service capabilities they have requested. The Corporation provides other services to the brokers who sell its policies to ensure a strong commitment between them and SGI CANADA. This business model has brought the Corporation success in six different markets in Canada and it will continue to market its products this way, building its broker relationships into the future.

Technology and Systems

SGI CANADA relies on its technology and systems to maintain its in-house underwriting system. Its general insurance system is flexible and can adapt to the changing competitive environment that SGI CANADA operates in. The Corporation has developed a large database of information in its underwriting system that provides a competitive advantage in assessing risk. Management reporting systems are utilized to ensure management receives timely information regarding operations and to provide complete and accurate reporting to its stakeholders and regulators. The Corporation monitors and responds to changes in technology to ensure that key areas are upgraded in a timely manner.

Based on feedback from staff and brokers, SGI CANADA is redesigning its billing system. The existing system has reached the end of its life cycle; some processes have reached a point where further development is no longer cost effective or prudent. The new billing system is currently undergoing user acceptance testing and will be available to brokers in late spring of 2006. It will streamline a number of existing functions; it will provide revised broker billing statements that are easy to read; and it will offer flexible withdrawal dates for customers utilizing pre-authorized chequing. The new billing system is based on industry best practices and billing standards, and a technological architecture that will allow it to remain adaptable and flexible to future business needs.

Capital and Liquidity

Adequate capitalization is crucial for insurers competing in the P&C insurance market in Canada. Not only is it important to ensure adequate funding is available to pay policyholder claims, but it allows a company to be flexible in its product offering mix in the fiercely competitive marketplace. In addition, regulators have certain capital requirements that must be met in order to sell P&C insurance in each province. Without adequate capitalization, SGI CANADA would not be capable of meeting its out-of-province growth targets.

The main sources of capital are retained earnings and cash injections in the form of equity advances from SGI CANADA's parent, CIC. These equity advances form the Corporation's equity capitalization. During the third quarter of 2005, the Corporation received a $25 million equity advance from CIC. The additional capital was in turn provided to its subsidiary, SGI CANADA Insurance Services Ltd. Of the $25 million received, $21 million remains in SGI CANADA Insurance Services Ltd. to facilitate its entry into the Alberta insurance market in 2006. The remaining $4 million was invested in Coachman to enable its growth in Ontario. During the first quarter of 2005, SGI CANADA Insurance Services Ltd. advanced $1 million of equity to Coachman for total new capital in Coachman during 2005 of $5 million.

In Canada, P&C insurers are regulated by either the Office of the Superintendent of Financial Institutions or provincial regulators. The regulators require insurers to maintain a level of capital sufficient to achieve a target of 150% of a minimum capital test. As discussed in *Strategic Direction*, SGI CANADA uses this test, as well as the net risk ratio, to assess its capital adequacy. Subsequent to the capital injections received during the year, the Corporation believes SGI CANADA and each of its subsidiaries are adequately capitalized to meet capital targets as well as to achieve targets for premium growth outside Saskatchewan for the next five years.

Financial liquidity represents the ability of SGI CANADA's companies to fund future operations, pay claims in a timely manner and grow. A main indicator of liquidity is the cash flow generated from operating activities. This is a Canadian generally accepted accounting principles measurement and is reported on the Consolidated Statement of Cash Flows. For 2005, SGI CANADA generated consolidated operating cash flows of $54,131,000, as compared to $54,703,000 in 2004, a 1% decrease. For over 15 years the Corporation has consistently generated cash from its operations. This cash flow allows it to invest funds for claim payments in the future and meet dividend requirements to its parent, CIC.

The dividend policy requires that between 65% and 90% of net income be paid to CIC in the form of a dividend (2005 and 2004 – 65%). During the current year the total dividend was $22,880,000 (2004 – $27,095,000). For cash flow that the Corporation retains, legislation requires it to follow the same investment criteria that federally regulated P&C companies must follow. This means the majority of the Corporation's investments are in liquid securities that can be used to satisfy financial commitments in a timely manner. The majority of the investment portfolio is in treasury bills and highly liquid bonds and debentures issued or guaranteed by Canadian governments. The Corporation also invests in corporate bonds, mortgages, publicly-traded North American equities and a non-North American equity pooled fund.

2005 FINANCIAL RESULTS
Quarterly Consolidated Financial Highlights

The following table highlights quarter over quarter results for the Corporation:

Quarterly Consolidated Financial Highlights
($ in 000's)

	2005					2004				
	Q4	Q3	Q2	Q1	Year	Q4	Q3	Q2	Q1	Year
Net premiums earned	72,212	70,740	69,592	68,605	**281,149**	69,788	68,242	65,571	63,886	**267,487**
Claims incurred	33,138	46,679	50,161	32,485	**162,463**	47,279	42,566	34,447	33,338	**157,630**
Net income	10,035	4,989	448	19,728	**35,200**	6,117	7,192	12,090	16,285	**41,684**
Cash flow from (used in) operations	17,381	12,805	22,178	1,767	**54,131**	18,555	23,896	13,634	(1,382)	**54,703**
Investments	400,071	396,223	363,614	351,523		346,267	327,257	306,378	299,237	
Provision for unpaid claims	254,805	257,122	250,036	234,501		232,560	222,086	213,695	212,742	

The following points are intended to assist the reader in analyzing trends in the quarterly financial highlights for 2005:

- Net premiums earned have increased in the fourth quarter of 2005 due to policy growth in Saskatchewan. This is somewhat offset by reductions in auto policies from out-of-province operations.
- Claims incurred were abnormally high in Q2 and Q3 of 2005 due to severe summer storms and flooding events that occurred in Saskatchewan and Manitoba. Q4 is unusually low due to lower auto claims resulting from favourable driving conditions across the country, as well as an actuarial valuation which resulted in a $6.7 million reduction due to favourable development on prior year claims.
- Quarter over quarter, the Corporation generated positive cash flows from operations. Any excess cash is invested which is reflected in the increasing investment levels quarter over quarter.

For the three months ended Dec. 31, 2005

Since 2004, SGI CANADA has been preparing public quarterly financial reports. These reports are available on its website at www.sgicanada.ca. The following is the Corporation's analysis of the fourth quarter of 2005:

SGI CANADA recorded a consolidated net income of $10,035,000 for the fourth quarter of 2005 (2004 – $6,117,000) a 64% increase from 2004. The change is attributable to profitable operations from Saskatchewan of $11,535,000 (2004 – $4,755,000) and out-of-province operations which contributed a loss for the quarter of $1,500,000 (2004 – profit of $1,362,000).

Net premiums earned in the fourth quarter 2005 increased 3.5% or $2,424,000 from the fourth quarter of 2004.

Claims incurred were $33,138,000 for the fourth quarter of 2005, $14,141,000 or 30% lower than 2004. Claim costs from Saskatchewan operations decreased $5,754,000 and claim costs for out-of-province operations decreased $8,387,000 compared to the same period last year. The majority of the reduction in the fourth quarter of 2005 is due to favourable development during 2005 on prior-year claims.

Other expenses for the fourth quarter of 2005, excluding claims incurred, are $26,367,000, $3,603,000 more compared to the fourth quarter in 2004. Expenses from Saskatchewan operations increased $2,383,000 while out-of-province operations increased by $1,220,000. The majority of the increase correlates to the growth in premiums, which results in higher premium tax expenses and commissions to brokers. A $9,705,000 loss from a service agreement in Coachman was recorded in the fourth quarter. Further details are provided in the following section and in Note 13 to the audited consolidated financial statements.

For the year ended Dec. 31, 2005
Consolidated Earnings

Overview of operations

SGI CANADA recorded consolidated net income of $35,200,000, $6,484,000 lower than the prior-year net income of $41,684,000. While net income was lower than the previous year overall, the 2005 underwriting profit of $17,025,000 is the highest underwriting profit in SGI CANADA's history. Impressive, considering that during 2005 SGI CANADA also experienced one of the worst summer storm seasons on record, resulting in $25,698,000 additional storm claim costs compared to 2004.

The 2005 results are a positive indication that the Corporation's plan of diversifying beyond the borders of Saskatchewan is working. While its significant market share in Saskatchewan means that the majority of its profit remains from Saskatchewan operations, positive growth from out-of-province net income in 2005 assisted in offsetting costs from the substantial Saskatchewan storms in 2005. As can be seen in the table below, all operating segments showed a net profit in 2005 and 2004. While net income from Saskatchewan operations declined $7,278,000 in 2005, net income from out-of-province operations increased $794,000. The increase in net income from out-of-province operations came from improved results in ICPEI and Coachman.

The table above illustrates the Corporation's underwriting profit by operating segment. The record underwriting profit in 2005 is distributed across operating segments more than was experienced in 2004, with solid underwriting profits from Saskatchewan, Coachman and ICPEI. Only Manitoba operations suffered an underwriting loss in the current year.

Net premiums written

In 2005, premiums written totalled $286,384,000 representing an $8,424,000 or 3% increase from the prior year. The majority of this increase was due to higher premiums written in the Saskatchewan operations of $11,524,000 offset by a $3,100,000 decrease in premiums written mostly from declining automobile premiums in Ontario operations.

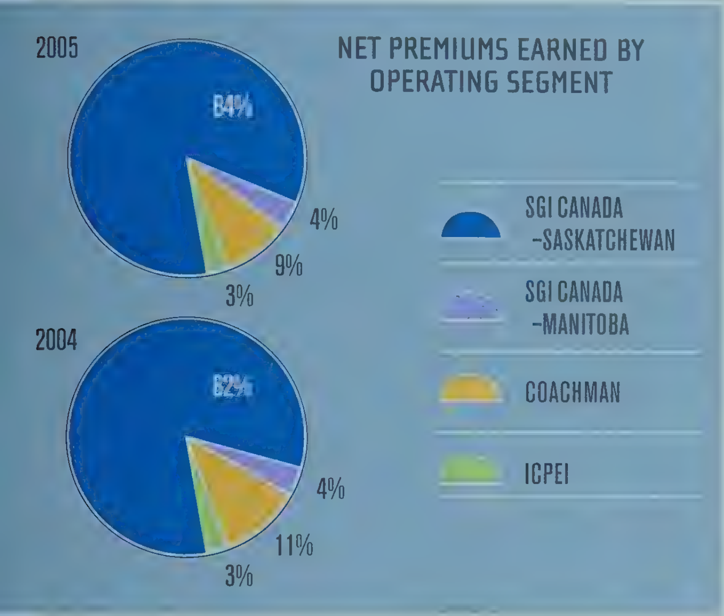
Net premiums earned

Net premiums earned for 2005 increased by $13,662,000, or 5% compared to 2004. This increase is due to higher premiums earned from Saskatchewan operations than in the previous year.

Operating Segment	2005	% of profit	2004	% of profit
SGI CANADA – Saskatchewan	$ 31,605	90%	$ 38,883	93%
SGI CANADA – Manitoba	344	1%	1,148	3%
Coachman (Ontario)	1,163	3%	682	2%
ICPEI (Maritimes)*	2,088	6%	971	2%
NET INCOME	$ 35,200		$ 41,684	

*ICPEI income net of 24.9% minority interest

Net premiums earned in 2005 from out-of-province operations decreased $2,019,000 compared to last year. The decline is due primarily to lower auto premiums in both Ontario and Prince Edward Island. Both decreased in 2005 compared to 2004. This decline in auto premiums is offset somewhat by higher net premiums earned from property business from operations outside of Saskatchewan.



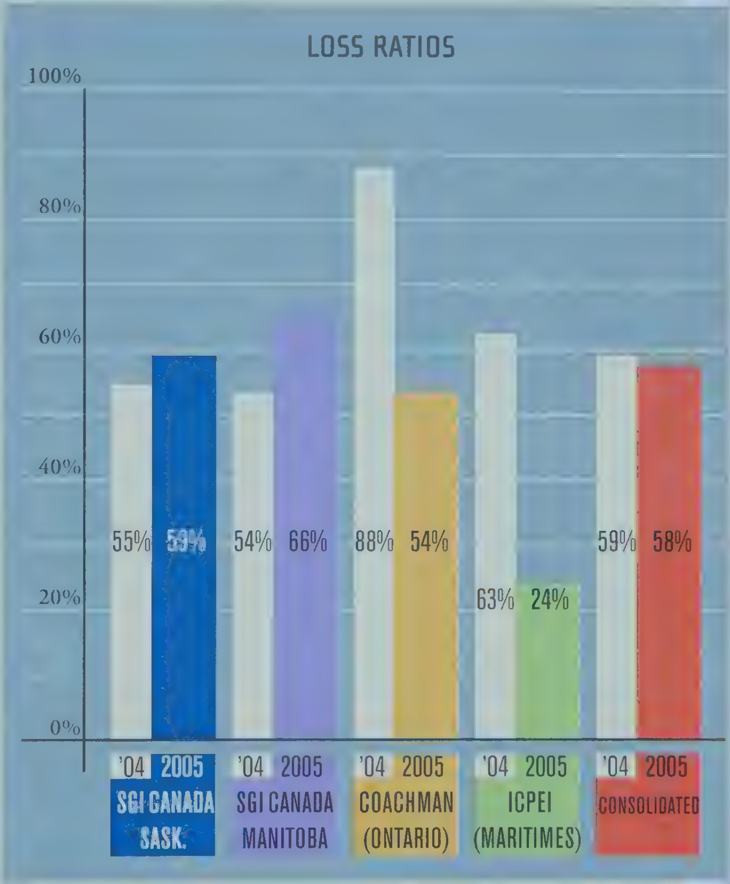
The most significant decline in premiums earned was experienced in the Ontario automobile line, which declined $4,188,000. The decrease was largely due to increased competitive pressures in the Ontario market. In 2005, the Corporation conceded market share to avoid writing unprofitable business. It has developed a detailed business plan for 2006 which includes several changes to address declining policy counts.

As a result of the decline in Ontario automobile net premiums earned, the automobile line for SGI CANADA consolidated declined from 46% in 2004 to 44% in 2005. This is approximately 4% lower than the Canadian P&C industry total of 48%.

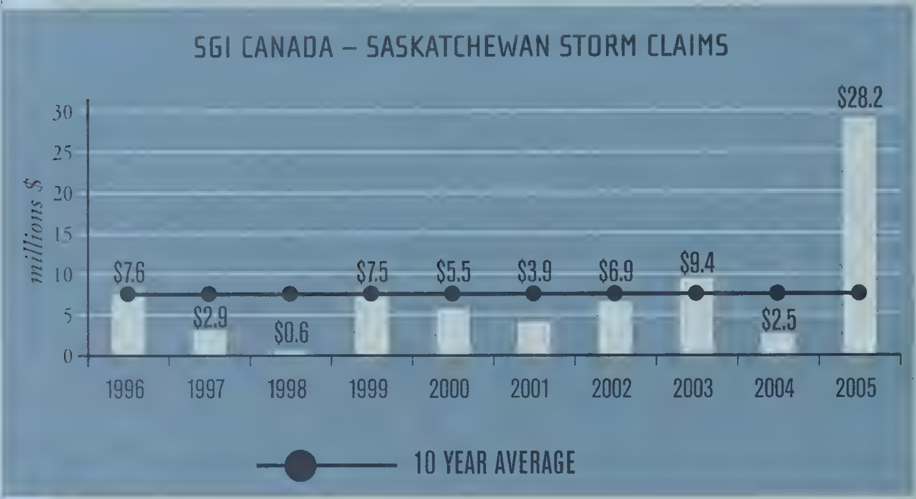
Claims incurred

Claims incurred in 2005 of $162,463,000 (2004 – $157,630,000) are $4,833,000 higher than last year. This increase is due to higher claim costs in Saskatchewan and Manitoba operations resulting from severe summer storm activity during 2005. This is offset by lower claim costs in Ontario and the Maritimes, mainly due to lower automobile claims and favourable development experienced on prior-year claims.

The following table highlights the ratio of claim costs in relation to premiums earned, commonly known as loss ratio, for each operating segment:



Claim costs related to Saskatchewan operations increased $17,411,000 from $121,943,000 in 2004 to $139,354,000 in 2005. As a result, the loss ratio increased from 55% to 59%. The increase was due to one of the most severe summer storm seasons on record in terms of claim costs. Storm activity in 2005 resulted in claim costs of $28,241,000 in 2005. This is $25,698,000 more than the 2004 storm claim costs of $2,543,000. The following graph shows the significance of storm claims in 2005 compared to the past nine years:



Manitoba claim costs increased from $5,612,000 in 2004 to $7,482,000 in 2005, also from severe summer storm activity. As a result, the Manitoba loss ratio also increased compared to 2004. As Manitoba market share is relatively small compared to Saskatchewan, the impact is not as great to the consolidated operations of SGI CANADA.

Ontario's loss ratio declined from 88% in 2004 to 54% in 2005. This significant improvement was a result of lower claims severity, combined with 14% fewer claims reported than in the prior year. In addition, the actuarial valuation of the provision for unpaid claims in the current year indicated that reserves were too high, mostly related to automobile liability claims. This resulted in a decrease to claims incurred of $3,563,000, whereas in 2004 the provision for unpaid claims was deficient, resulting in an increase to claims incurred of $3,316,000.

In the Maritimes, ICPEI's loss ratio declined from 63% in 2004 to 24% in 2005. This result was due to lower claims severity experienced in 2005 combined with favourable development on the provision for unpaid claims. The Corporation's valuation of the provision for unpaid claims in the current year indicated that reserves for prior-year claims were too high, resulting in a decrease to claims incurred of $3,063,000. In 2004, the actuarial valuation resulted in a decrease to claims incurred of $754,000.

While 2005 claim costs from Saskatchewan operations were significantly higher than 2004, declining claim costs in out-of-province operations have contributed to a slight decline in the consolidated loss ratio for 2005. This is a clear indication of the benefit of geographic diversification.

Expenses excluding claims incurred

Other expenses increased $7,374,000, from $95,345,000 in 2004 to $102,719,000 in 2005. Of the $7,374,000 increase, $3,735,000 relates to increased commissions and premium taxes. This increase is proportionate to growth in the premium base. The remaining $3,639,000 increase is from administration expenses. The 2005 administrative expense ratio has increased slightly to 11.4% compared to 10.6% in 2004. The increase is a result of higher facilities and system costs during 2005 to support growth resulting from expansion.

Investment earnings

Investment earnings for 2005 are $27,632,000 (2004 – $27,350,000), $282,000 more than for the prior year. The annualized consolidated return on the investment portfolio for 2005 was 6.2% compared to 6.9% for 2004.

Loss from service agreement

During 1998, Coachman, entered into a multi-year service agreement with Budget Car Rentals Toronto Limited (the rental company). This agreement was entered into prior to SGI CANADA's ownership of Coachman. The agreement allowed the rental company to self insure its fleet of vehicles for an annual fee, using Coachman's name on the insurance policy. The rental company was responsible to make all claim payments and report quarterly to Coachman on the status of all claims and the provision for unpaid claims. As security to guarantee the provision for unpaid claims, the rental company was also required to maintain funds on deposit in an amount which would meet the funding of the outstanding liabilities related to this agreement.

While these types of insurance agreements are common in the insurance industry, SGI CANADA did not consider this business part of Coachman's core operations and therefore exited the agreement March 31, 2005. Subsequent to this, the rental company filed for voluntary receivership. A detailed review of the outstanding claims revealed that the provision for unpaid claims related to this agreement was $10,940,000. At Dec. 31, 2005 the balance of funds held in the trust account maintained pursuant to the agreement was $1,235,000. The $9,705,000 shortfall has been charged to current year operations.

The provision for unpaid claims related to the agreement was determined by Coachman's external actuary. Coachman has no other active service arrangements of this nature and has not experienced a loss such as this in the past. This loss is unusual and does not relate to Coachman's normal insurance operations. As such, it has been recorded separately in the consolidated financial statements on the Consolidated Statement of Operations and Retained Earnings, after underwriting profit and investment earnings. During 2006, Coachman will be actively pursuing options to recover the $9,705,000 shortfall.

Income taxes

The Corporation's out-of-province legal entities, SGI CANADA Insurance Services Ltd., Coachman and ICPEI, are taxable entities, while SGI CANADA itself is not. On a consolidated basis, SGI CANADA has recorded a tax recovery of $884,000 in 2005, compared to a tax expense of $1,218,000 in 2004. The provision for current taxes increased from $1,116,000 in 2004 to $1,854,000 in 2005. This is a result of increasing taxable income from out-of-province subsidiaries. The Corporation also recorded a future tax recovery of $2,738,000 in 2005 compared to a future tax expense of $102,000 in 2004. Of the consolidated future tax recovery, $2,689,000 relates to Coachman and the remainder to SGI CANADA Insurance Services Ltd.

Coachman has a significant net future tax asset, the majority of which relates to unused non-capital tax loss carryforwards. The $2,689,000 future tax recovery recognizes that Coachman is expected to be able to recover tax in coming years based on future expected profitable operations. The valuation of the Corporation's future tax asset is discussed further under the caption *Consolidated Statement of Financial Position.*

Consolidated cash resources

Operating activities

The Corporation continues to generate healthy cash flows from operations. In 2005, the Corporation generated $54,131,000 from operations, which is similar to the cash generated from operations in 2004 of $54,703,000.

Investing activities

Excess cash from operations is invested in the investment portfolio of the applicable legal entity. The Corporation's investment manager actively trades its investments in the capital markets. Investment purchases of $789,314,000 were made, and proceeds from the sale of investments of $744,506,000 occurred during the year, resulting in net purchase of investments of $44,808,000. The primary sources of cash used to fund this net purchase of investments were cash generated from operations and the $25 million capital injection received from CIC.

Financing activities

Financing activities during the year included a $25 million capital injection from SGI CANADA's parent, CIC, and dividends paid during the year of $21,543,000. The dividend policy is to pay between 65% and 90% of the Corporation's consolidated net income for the year as a dividend to CIC (2005 and 2004 – 65%).

Consolidated Statement of Financial Position

Cash

Cash and cash equivalents at Dec. 31, 2005 were $33,949,000 (2004 – $24,135,000) an increase of $9,814,000. The sources of the change in cash for the year are described in the above section *Consolidated cash resources.* Cash equivalents consist of treasury bills with a maturity of 90 days or fewer from the date of acquisition.

Future income taxes

The Corporation, through its taxable subsidiaries SGI CANADA Insurance Services Ltd., Coachman and ICPEI, records future tax assets and liabilities based on the results of its operations each year. Note 14 to the consolidated financial statements contains further details of these balances. At Dec. 31, 2005 the consolidated financial statements have future tax assets of $10,573,000 of which $8,446,000 are tax loss carryforwards and future tax liabilities of $1,838,000 resulting in a net future tax asset of $8,735,000. The Corporation, through the management of Coachman, has recorded a valuation allowance of $5,926,000 against future tax assets, resulting in a recorded net future tax assets of $2,809,000.

Management is required to use judgment to assess the valuation allowance each year, based on guidance within Canadian generally accepted accounting principles regarding the likelihood of recovering the tax asset in the future. This is the first time that management of Coachman has determined it is appropriate to recognize a future tax asset. This tax asset has been booked based on the fact that Coachman is seeing positive results from the significant operational changes implemented three years ago, such as improved claims reserving practices, exiting unprofitable lines of business such as taxis, increasing the property line of business and eliminating unprofitable brokers. Management felt it was prudent to recognize a future tax asset in the current year and it has taken a reasonably conservative approach by recognizing only $2.7 million and maintaining a valuation allowance of $5.9 million on remaining future tax assets.

Investments
The Corporation's investments are in government treasury bills and bonds, corporate bonds, debentures and shares, mortgages and a pooled equity fund. The following table shows the book and market values of these investments at Dec. 31, 2005 and 2004:

	(thousands of $)			
	2005		2004	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Short-term investments	$ 20,676	$ 20,676	$ 6,932	$ 6,932
Bonds and debentures	313,899	315,266	271,518	275,744
Pooled equity fund	10,451	11,808	10,193	10,459
Canadian common shares	23,979	40,256	28,386	41,827
U.S. common shares	11,423	14,108	10,323	12,824
Preferred shares	–	–	290	297
Mortgages	15,629	16,212	14,607	15,289
	396,057	418,326	342,249	363,372
Investments accounted for on the equity basis	4,014	4,014	4,018	4,018
Total investments	$ 400,071	$ 422,340	$ 346,267	$ 367,390

Net unrealized gains at Dec. 31, 2005 are $22,269,000 (2004 – $21,123,000).

Unearned premiums
At Dec. 31, 2005 unearned premiums were $152,334,000 (2004 – $148,431,000) an increase of 3% from last year. The increase is reflective of the growth strategy for out-of-province operations with this balance showing the portion of premiums charged that relate to the unexpired term of the policies issued during the current fiscal year.

Provision for unpaid claims
The Dec. 31, 2005 provision for unpaid claims was $254,805,000 (2004 – $232,560,000) an increase of 9% from last year. Most of this increase, 44%, is due to unreported prior claims from a service agreement between Coachman and an Ontario car rental company that were only brought to Coachman's attention in 2005. Further details of these claims are described in Note 13 to the consolidated financial statements. The remainder of the increase in the provision for unpaid claims is due to severe summer storm activity on the Prairies.

This liability reflects the estimated ultimate costs of claims reported but not settled, along with claims incurred but not reported. The Corporation reports as an asset (unpaid claims recoverable from reinsurers) the portion of this liability that is recoverable from reinsurers. As discussed in the notes to the consolidated financial statements, the process to determine this liability is complex as it takes into consideration numerous variables that are subject to the outcome of future events. Any change in estimates is reflected as claims incurred on the Consolidated Statement of Operations.

Off-Balance Sheet Arrangements

SGI CANADA, in its normal course of operations, enters into certain transactions that are not required to be recorded on its statement of financial position – commonly referred to as the balance sheet. These items include litigation, structured settlements and a long-term telecommunications contract. These items are discussed below, as well as in Note 21 to the consolidated financial statements.

The Corporation, as is common in the P&C insurance industry, is subject to litigation arising in the normal course of its operations, primarily in claim settlements. SGI CANADA is of the opinion that current litigation will not have a material impact on operations, financial position or cash flows.

Also, the Corporation and its subsidiaries, in the normal course of settling claims, settle some long-term disability claims by purchasing structured settlements (annuities) from various financial institutions for its claimants. This is a common practice in the P&C industry. The Corporation has paid $48,778,000 (2004 – $48,824,000) to these financial institutions to fund these settlements and has no recourse to these funds. The Corporation

provides a financial guarantee to the claimant in the event of default by the financial institution on the payment schedule to the claimant. No default has occurred in the past on these payment schedules and the Corporation considers the likelihood of such default to be extremely remote.

The Corporation has secured a long-term telecommunications contract with a related provincial Crown corporation that is scheduled to end in 2009 at an annual cost of $1,245,000 (2004 – $792,000).

CRITICAL ACCOUNTING ESTIMATES

This discussion and analysis of the Corporation's financial condition and results of operations are based upon its consolidated financial statements as presented in this annual report. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles, as recommended by the Canadian Institute of Chartered Accountants. Significant accounting policies are contained in Note 2 to the consolidated financial statements. Certain of these policies involve critical accounting estimates because they require management to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts could be reported under different conditions or using different assumptions.

The Corporation has discussed the development, selection and application of its key accounting policies and the critical accounting estimates and assumptions they involve, with the Audit and Finance Committee of the Board of Directors, and the Audit and Finance Committee has reviewed the disclosures described in this section. The most significant critical accounting estimates involve the valuation of the provision for unpaid claims, investments, reinsurance and future income taxes.

Provision for unpaid claims

A provision for unpaid claims is maintained to cover the estimated ultimate liability for losses and loss adjustment expenses for reported claims and claims incurred but not yet reported as at the end of each accounting period. The initial provision is determined on the reported facts filed with the claim and then revised regularly, as more information on the claim becomes known. The provision does not represent the exact calculation of the liability owing to claimants, but is an estimate developed using Canadian accepted actuarial practices and Canadian insurance regulatory requirements. The estimate reflects an expectation of the ultimate cost of settlement and administration of claims. It involves an assessment based on the facts and circumstances of the events reported in the claim, the Corporation's experience with similar claims, historical trends involving claim payments, claim severity, the effect of inflation on reported and future claims, court decisions and the time frame anticipated to settle and pay the claim.

This provision is refined on a continual basis as prior fiscal year claims are settled and additional claims are reported and settled. There may be significant time delays from the occurrence of the insured event and when it is reported. If this occurs near the year-end date, estimates are made as to the value of these claims based on information known to the Corporation. As well uncertainty exists for reported claims that are not settled, as all necessary information may not be available. Thus with the level of uncertainty involved in the claim process, until the final settlement occurs, current reserves may not be sufficient. As permitted by Canadian GAAP, the Corporation only discounts long-term disability claims included in this provision. Any adjustments to these estimates, both positive (a redundancy) and negative (a deficiency) are included in the provision for unpaid claims and are reflected as claims incurred in the current year's Consolidated Statement of Operations.

Investments

The establishment of an impairment of an investment security requires a number of judgments and estimates. Management performs a quarterly analysis of investment holdings to determine if declines in market value of a particular investment are other than temporary. This analysis includes:

- identifying all security holdings in an unrealized loss position that have existed for at least six months;
- assessing if declines in market value are other than temporary for debt security holdings based on the investment grade credit rating from third-party security rating agencies; and
- determining the necessary provision for declines in market value that are considered other than temporary based on the analyses performed.

Reinsurance

Reinsurance recoverables include amounts for expected recoveries related to claim liabilities, as well as the portion of the reinsurance premium that has not yet been earned. The cost of reinsurance is accounted for over the terms of the underlying reinsured policies using assumptions consistent with those used to account for the policies. Amounts recoverable from reinsurers are estimated in a manner consistent with claim and claim adjustment expense reserves and are reported in the consolidated statement of financial position. The ceding of insurance does not discharge the Corporation's primary liability to its insureds. An estimated allowance for doubtful accounts is recorded on the basis of periodic evaluations of balances due from reinsurers, reinsurer solvency, management's experience and current economic conditions.

Future income taxes

The provision for income taxes is calculated based on the expected tax treatment of transactions recorded in the consolidated financial statements. In determining the provision for income taxes, the Corporation interprets tax legislation in a variety of jurisdictions and makes assumptions about the expected timing of the reversal of future tax assets and liabilities and the valuation of future income tax assets, the most significant of which is unused non-capital tax loss carryforwards.

Management makes assumptions regarding the value of future tax assets. A valuation allowance is recorded based on these assumptions. This allowance is based on management's assessment of whether it is more likely than not that the Corporation will utilize tax assets before they expire. This assessment is based on expected future earnings, tax rates, the amount of taxable income in future years and the timing of the reversal of future tax liabilities. The assessment of the valuation of future taxes in the current year is discussed in the above section *Consolidated Statement of Financial Position.*

UPCOMING CHANGES IN ANNOUNCED ACCOUNTING STANDARDS

The following is a summary of announced changes to Canadian accounting standards that management believes will have an impact on the consolidated financial reporting of the Corporation. This is not an exhaustive listing of all announced changes by the CICA.

Early in 2005, the CICA issued Handbook Sections 1530 *Comprehensive Income*, Section 3251 *Equity* and Section 3855 *Financial Instruments – Recognition and Measurement.*

Financial Instruments – Recognition and Measurement

This accounting standard specifies that financial assets and financial liabilities are only recognized when contractual provision allows. While financial assets and liabilities are initially recorded at fair value, subsequent measurement depends upon the financial instruments classification to one of three categories: held for trading, held to maturity or available for sale. The Corporation is assessing the impact of this accounting change on its consolidated financial statements. While the impact is expected to be far reaching, the most significant impact is expected to be related to the measurement of its investment portfolio which, as described in Note 5 to the consolidated financial statements, at Dec. 31, 2005 is recorded at a book value of $400,071,000, but has a fair value of $422,340,000.

Comprehensive Income and Equity

This new accounting standard requires a fourth financial statement, the Statement of Comprehensive Income, be produced and reported with the same prominence as the other three financial statements. The new statement presents net income and other components that are recognized in determining comprehensive income. Comprehensive income is defined as the change in equity of an enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Other comprehensive income includes those revenues, expenses, gains and losses that are included in comprehensive income, but excluded from net income. Other comprehensive income includes unrealized gains or losses on financial assets classified as available for sale. Section 3250, *Equity*, requires accumulated other comprehensive income be disclosed as a separate item within a company's equity. The Corporation is assessing the impact of these accounting changes on its consolidated financial statements.

The above new accounting standards apply to interim and annual financial statements that relate to fiscal years starting on or after Oct. 1, 2006. The Corporation will adopt these standards in its fiscal year commencing Jan. 1, 2007.

RISK MANAGEMENT

Understanding and managing risk is important to the Corporation's success. Risks represent potential threats to meeting the objectives set forth by the Corporation and affect its ability to take advantage of opportunities as they present themselves. Senior management has a process to formally review corporate risks semi-annually. This review includes identifying, analyzing and ranking the key risks based on their potential impact on the Corporation and likelihood of occurrence. This process results in a risk profile for the Corporation. Mitigation plans are developed to minimize the impact or likelihood of occurrence of the identified risks, based on their risk ranking. The corporate risk profile is reviewed, and input provided, by the Audit and Finance Committee of the Board of Directors. SGI CANADA's Audit Services branch also uses the risk profile in developing its annual work plan.

The following are the main risks that the Corporation manages to reduce impact on its operations and profitability. It is not an exhaustive list of all risks the Corporation faces. They are presented in the same order as they are ranked by management and presented to the Audit and Finance Committee of the Board of Directors.

Provision for unpaid claims (or reserve risk) is the risk that the reserves set aside today are not enough to meet the liability for unpaid claims. The Corporation maintains a reserve to cover its liability for future payments on reported claims and an estimate for claims that have not yet been reported. These amounts are estimates, and the ultimate payment on these claims may differ from the estimate. The Corporation monitors fluctuations in these reserve amounts on an ongoing basis to limit their impact on operations.

Underwriting risk results from a financial loss due to not properly pricing risks being insured. The Corporation reduces this risk by maintaining a large underwriting database to help assess risk, by employing valuable and experienced underwriters, by diversifying policies being issued (both geographically and by product line) and targeting for a combined ratio below 100%. Automobile policies are written after a review of the driving record of the policyholder, claims experience and type of vehicle being insured. Auto insurance pricing must be submitted for approval by the provincial regulators where the Corporation operates. These regulators may, notwithstanding the Corporation's detailed analysis, require changes to proposed rates. Property policies are based on a review of the type and physical condition of property, replacement value and claims experience. The Corporation will maintain its underwriting principles and will give up business when unprofitable pricing competition exists, but writing more of that business once prices return to an acceptable level.

Capital availability and liquidity risk relates to a lack of cash resources available when the Corporation's policies or operating obligations come due. The Corporation monitors actual cash flows and projects anticipated cash flows, which are used to determine funds available to invest or funds required from the investment portfolio. Governing legislation requires the Corporation to follow the same investment criterion that federally regulated P&C companies must follow. That means SGI CANADA's investments are in liquid securities that can be used to satisfy financial commitments. If the Corporation experienced a severe capital shortfall it may be able to access funding from its parent, CIC. The Corporation currently does not have any material commitments for capital expenditure, nor is there need for such commitments in the normal course of its business operations.

More details on the Corporation's investment portfolio are contained in Note 5 to the consolidated financial statements. The majority of the portfolio is in treasury bills and highly liquid bonds and debentures issued or guaranteed by Canadian governments. The Corporation also invests in corporate bonds and in publicly traded North American equities. It has diversified its exposure to North American stock markets by participating in an actively managed non-North American pooled equity fund.

Catastrophe exposure risk relates to losses arising from catastrophic events. With the Corporation having a significant portion of the Saskatchewan property insurance market, it is susceptible to large losses from major storms in Saskatchewan. To contain this risk, the Corporation purchases catastrophe reinsurance protection that reduces the potential impact from major losses as a result of catastrophic events. While the Corporation has a heavier geographic concentration of risk than other major insurance companies in Canada, it is less susceptible than other insurance companies to catastrophes from earthquakes and hurricanes because of the location of its insurance business.

Risk to information systems involves the security of data from accidental or deliberate destruction and from outside intrusion. It also involves the security of corporate hardware from failure, destruction or theft, maintaining up-to-date versions of software/hardware along with keeping abreast of changes in information technology. The Corporation secures data using modern systems of access and protection along with regular backups. It has developed and regularly reviews a business continuity plan, which includes provision for an alternative computing services site for major applications that can be instantly activated if needed.

Privacy management risk relates to release or use of private information without proper authorization. The improper release of information could cause financial and reputational harm. To reduce this risk, the Corporation developed a privacy management framework that meets legislative requirements imposed by *The Freedom of Information and Protection of Privacy Act* (Saskatchewan) and other applicable privacy legislation. The framework ensures that policies and practices are in place to protect privacy and personal information maintained by the Corporation. It has controls that limit access to the data. The Board of Directors and all employees are subject to the Corporation's Code of Ethics and Conduct and its Information Technology policy. All employees are required to take training in proper management of private information.

Investing risk relates to changes in interest rates, foreign currency and market values. Lower short-term interest rates impact the earnings of the investment fund used to pay claims and to finance future growth. Returns from capital markets, both domestic and foreign, are uncertain and will fluctuate from year to year. To reduce the impact of these fluctuations on investment portfolio earnings, the Corporation uses the services of investment managers. It also has a Statement of Investment Policies and Goals (SIP&G) that is reviewed annually by internal and external investment consultants and is approved annually by the Investment Committee of the Board of Directors. The Corporation does not use any derivative financial instruments to alter the effects of these market changes and fluctuations. The main goal of the SIP&G is an investment policy and strategy that is based on

prudence, regulatory guidelines and claim settlement patterns with a view to maximizing long-term returns utilizing a conservative investment portfolio.

The investment managers follow guidelines established in the SIP&G which provide the investment managers the playbook for the asset mix within the portfolio regarding quality and quantity of debt, real estate and equity investments using a prudent person approach. The asset mix helps to reduce the impact of market value fluctuations by requiring investments in different pools and in domestic and foreign markets. Some of the investment limits for quantity and quality are based on legislative requirements in *The Insurance Companies Act* (federal). The SIP&G also has rate of return standards for the portfolio and performance return measurement standards for the investment managers. Investment managers produce quarterly reports on the performance of assets under their management that are reviewed by corporate management and the Investment Committee of the Board of Directors.

Foreign currency exposure arises from the Corporation holding investments denominated in currencies other than the Canadian dollar. Fluctuations in the relative value of the Canadian dollar against foreign currencies result in a positive or negative effect on the fair value of investments. The Corporation manages foreign currency risk by limiting its holdings of foreign investments to a maximum of 14% of the market value of the entire investment portfolio.

Risks to human resources exists due to the need to replace an aging, highly-skilled workforce, and fluctuating pension liability due to (1) lower returns on invested funds; (2) lower prescribed discount rates that are used in calculating pension liability and (3) reduction in active employees in the defined benefit pension plan which has been closed to new hires since 1980. The Corporation aims to manage these risks by maintaining policies and programs positioning it as an employer of choice, balanced with the need for cost control through plan design and administrative controls.

Workplace safety and health risks to employees arise during their normal work activities. These risks are managed directly by individuals and the employee occupational health and safety committee using written procedures and safety audits. To ensure policies and procedures address all reasonable steps to keep employees safe and healthy, Pozniak Safety Associates was hired to conduct an occupational health and safety gap analysis. Work commenced in the fall of 2005 with a report available in early 2006 containing recommendations for changes to business practices and policies to ensure compliance with legislation and to keep employees safe.

Reinsurance risk relates to a financial loss due to inadequate coverage, default or financial failure of a reinsurer. The Corporation reviews annually its reinsurance requirements to determine the type and amount required for sustaining operations. Reinsurers are selected based on their financial strength, coverage available to the Corporation and the cost. Due to the number of international disasters in the last five years, reinsurance has become more expensive but not cost prohibitive. The Corporation requires reinsurance to sustain and grow its operations. Reinsurance does not relieve the Corporation of its financial responsibilities to policyholders, but helps it to pay claims in the event of a catastrophic event. Reinsurance also allows the Corporation to diversify its insurance policy base.

RELATED-PARTY TRANSACTIONS

The Corporation is related in terms of common ownership to all Government of Saskatchewan departments, agencies, boards, commissions, Crown corporations, and jointly controlled and significantly influenced corporations and enterprises. Transactions with these entities were entered into in the normal course of business and are settled at prevailing market prices under normal trade terms.

SGI CANADA is the administrator of the Saskatchewan Auto Fund on behalf of the Province of Saskatchewan. SGI CANADA incurs administrative and claim adjustment expenses on behalf of the Auto Fund which are charged to it.

The Corporation, as the lessor, has an interest in a capital lease in Prince Albert, Saskatchewan with the Department of Property Management, a provincial government department. This lease expires in April 2011. Further details on this lease are provided in Note 6 to the consolidated financial statements.

The Corporation has direct premiums that are brokered through Charlie Cooke Insurance Agency Ltd., pays claim adjusting fees to Atlantic Adjusting & Appraisals Ltd. and has premiums financed for policyholders by Maritime Finance & Acceptance Corporation. These companies are affiliated with the minority shareholder of ICPEI, who is a member of ICPEI's senior management. The policies written and the claim adjusting expenses paid are routine operating transactions in the normal course of business.

The transactions with these related parties are discussed in Note 17 to the consolidated financial statements.

OUTLOOK FOR 2006

Since 1993 SGI CANADA has been increasing its focus on expanding business beyond the borders of Saskatchewan. As discussed in the President's message, in this regard it has developed a new Vision statement that will guide it in 2006 and beyond:

> We will become a leading national insurer by offering competitive, high-quality products and services in partnership with our brokers.

One aspect of the new vision is the focus on becoming a leading national insurer. At the end of 2005, SGI CANADA had operations in Saskatchewan, Manitoba, Ontario, Prince Edward Island, New Brunswick and Nova Scotia. In 2006 SGI CANADA will achieve a major milestone when it begins operating in Alberta. Alberta expansion is a major step in diversifying the Corporation's geographic policy base, growing the Corporation, creating employment opportunities and returning a profit to its shareholder. In addition to expansion into Alberta, SGI CANADA has also developed business plans to support further growth in Ontario as well as the Maritime provinces. It has established a scorecard target for its percentage of business out-of-province to grow to 35% by the end of 2010.

As the new vision suggests, SGI CANADA recognizes the importance of the policy distribution model that has served it so well in the past. Using independent insurance brokers to market products and services has brought the company great success in the past and will be critical to its success in the future. The independent insurance broker is a particularly important asset to the company, and therefore industry developments are monitored, such as the draft financial services legislation known informally as Bill C-8.

Chartered banks and the Canadian Bankers Association have begun lobbying to have legislation changed to allow them to sell P&C products in bank branches. Some provinces have relaxed legislation in their respective credit union acts to allow credit unions to purchase insurance brokerages. SGI CANADA is committed to offering its products and services through independent brokers. Therefore, it is monitoring this development for impact on the Corporation's operations and will continue to work with brokers to ensure SGI CANADA policy options are available to all consumers.

P&C industry financial results have made a dramatic turnaround from the dismal results of 2001 and 2002. Underwriting profitability levels, especially in standard automobile insurance, have returned to acceptable levels to sustain long-term operations for companies in the industry. The industry turnaround has occurred in part due to provincial regulatory changes in Ontario, Alberta and Nova Scotia. During 2005, the pattern of lower than average automobile claims frequency also continued. The Corporation is of the view that this below average claims frequency may not continue, and have considered this in plans for 2006 and forward.

Commercial insurance continues to experience favourable underwriting results and has helped strengthen the P&C industry's capital position. As a result, SGI CANADA foresees increased competition in this product line in the coming year in the form of reduced premiums. It will maintain its disciplined underwriting approach in this line of business, as in all lines of business, to maintain profitability.

Overall, the outlook for SGI CANADA remains positive. The Corporation has a new Vision and a solid plan for 2006. It has a strong network of independent brokers, both inside and outside Saskatchewan, and is well positioned to continue building its geographic presence in Canada.

Caution Regarding Forward-Looking Statements

Forward-looking statements include, among others, statements regarding SGI CANADA's objectives, strategies and capabilities to achieve them. These statements are not historical facts. Forward-looking statements are typically identified by words such as believe, expect, will, would, should, expect, may and could, or other comparable words. These statements involve risks and uncertainties, general and specific, which may cause actual results to differ materially from the expectations expressed in the forward-looking statements.

Forward-looking statements are based on estimates and assumptions made by the Corporation in light of its experience and perception of historical trends, current conditions and expected future developments, as well as other factors that it believes are appropriate in the circumstances. Many factors could cause actual results, performance or achievements, or future events or developments, to differ materially from those expressed or implied by the forward-looking statements. Some of these factors that could cause such differences are discussed under the section on *Risk Management* in this MD&A. The *Risk Management* section is not a comprehensive list of all possible factors, and other factors could also adversely affect the Corporation's results.

SGI CANADA deems that the assumptions built into the forward-looking statements are plausible; however, all factors should be considered carefully when making decisions with respect to the Corporation. Undue reliance should not be placed on the Corporation's forward-looking statements which only apply as of the date of this MD&A document. The Corporation does not undertake to update any forward-looking statements that may be made from time to time by or on its behalf.

RESPONSIBILITY for FINANCIAL STATEMENTS

The consolidated financial statements are the responsibility of management and have been prepared in conformity with accounting principles generally accepted in Canada. In the opinion of management, the consolidated financial statements fairly reflect the financial position, results of operations and cash flows of Saskatchewan Government Insurance (the Corporation) within reasonable limits of materiality.

Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of the Corporation. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by an internal audit department.

An actuary has been appointed by the Corporation to carry out a valuation of the policy liabilities in accordance with accepted actuarial practice and common Canadian insurance regulatory requirements. The policy liabilities consist of a provision for unpaid claim and adjustment expenses on the earned portion of policies and of future obligations on the unearned portion of policies. In performing this valuation, the actuary makes assumptions as to future rates of claim frequency and severity, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Corporation and the nature of the insurance policies. The actuary also makes use of management information provided by the Corporation and the work of the external auditors in verifying the data used in the valuation.

The consolidated financial statements have been examined and approved by the Board of Directors. An Audit and Finance Committee, composed of members of the Board of Directors, meets periodically with financial officers of the Corporation and the external auditors. These external auditors have free access to this Committee, without management present, to discuss the results of their audit work and their opinion on the adequacy of internal financial controls and the quality of financial reporting.

As appointed by the Lieutenant Governor in Council and approved by Crown Investments Corporation of Saskatchewan, KPMG LLP have been appointed external auditors. Their responsibility is to report to the Members of the Legislative Assembly regarding the fairness of presentation of the Corporation's financial position and results of operations as shown in the consolidated financial statements. In carrying out their audit, the external auditors also make use of the work of the actuary and her report on the policy liabilities. The Auditors' Report outlines the scope of their examination and their opinion.

Don Thompson

Jon Schubert
President

Don Thompson
Vice President, Finance and Administration

February 22, 2006

ACTUARY'S REPORT

To the Board of Directors of
Saskatchewan Government Insurance

I have valued the policy liabilities of SGI CANADA for its consolidated statement of financial position at December 31, 2005 and their change in the consolidated statement of operations and retained earnings for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods, except as described in the following paragraph.

In accepted actuarial practice, the valuation of policy liabilities reflects the time value of money. Management required that the valuation of some policy liabilities not reflect the time value of money, which is permissible under Canadian generally accepted accounting principles for financial reporting purposes. My valuation complies with that practice.

In my opinion, except as noted in the previous paragraph, the amount of policy liabilities makes appropriate provision for all policyholder obligations, and the consolidated financial statements fairly present the results of the valuation.

Cara Low

Cara Low
Fellow, Canadian Institute of Actuaries

February 22, 2006

AUDITORS' REPORT

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the consolidated statement of financial position of Saskatchewan Government Insurance as at December 31, 2005 and the consolidated statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Regina, Canada

February 22, 2006

CONSOLIDATED STATEMENT of FINANCIAL POSITION

December 31	2005	2004
	(thousands of $)	
Assets		
Cash and cash equivalents (note 3)	$ 33,949	$ 24,135
Accounts receivable (note 4)	75,129	74,070
Deferred policy acquisition costs	36,763	35,371
Future income taxes (note 14)	2,809	71
Reinsurers' share of unearned premiums	7,483	8,596
Investments (note 5)	400,071	346,267
Net investment in capital lease (note 6)	2,372	2,700
Goodwill	481	481
Unpaid claims recoverable from reinsurers (note 8)	27,415	27,914
Property, plant and equipment (note 7)	11,696	9,312
	$ 598,168	$ 528,917
Liabilities		
Accounts payable and accrued charges	$ 17,873	$ 15,609
Dividend payable	7,269	5,932
Premium taxes payable	12,784	12,432
Amounts due to reinsurers	6,585	5,109
Unearned reinsurance commissions	1,531	1,564
Unearned premiums	152,334	148,431
Provision for unpaid claims (note 8)	254,805	232,560
	453,181	421,637
Non-controlling interest	1,623	1,236
Province of Saskatchewan's equity		
Equity advances (note 9)	80,000	55,000
Retained earnings	63,364	51,044
	143,364	106,044
	$ 598,168	$ 528,917

Commitments and contingencies (note 21)

(see accompanying notes)

CONSOLIDATED STATEMENT of OPERATIONS and RETAINED EARNINGS

year ended December 31	2005	2004
	(thousands of $)	
Gross premiums written	$ 306,913	$ 300,787
Net premiums written	$ 286,384	$ 277,960
Net premiums earned (note 10)	**$ 281,149**	**$ 267,487**
Claims incurred (notes 10 & 11)	162,463	157,630
Commissions (note 10)	57,247	54,147
Administrative expenses (note 10)	31,922	28,283
Premium taxes (note 10)	13,550	12,915
Facility Association participation (note 19)	(1,058)	(1,362)
Total claims and expenses	**264,124**	**251,613**
Underwriting profit	**17,025**	**15,874**
Investment earnings (note 12)	27,632	27,350
Income before loss from service agreement, income taxes and non-controlling interest	**44,657**	**43,224**
Loss from service agreement (note 13)	9,705	–
Income before income taxes and non-controlling interest	**34,952**	**43,224**
Income taxes (recovery) (note 14)	(884)	1,218
Income after income taxes and before non-controlling interest	**35,836**	**42,006**
Non-controlling interest	636	322
Net income	**35,200**	**41,684**
Retained earnings, beginning of year	51,044	37,504
Dividend	(22,880)	(27,095)
Related party transaction	–	(1,049)
Retained earnings, end of year	**$ 63,364**	**$ 51,044**

(see accompanying notes)

CONSOLIDATED STATEMENT of CASH FLOWS

year ended December 31	2005	2004
	(thousands of $)	
Cash provided by (used for):		
Operating activities		
Net income	$ 35,200	$ 41,684
Non-cash items:		
Amortization	2,733	3,346
Net realized gain on disposal of investments	(11,305)	(12,445)
Realized loss on disposal of property, plant and equipment	10	–
Future income taxes	(2,738)	102
Loss from service agreement	9,705	–
Investment write downs	983	1,385
Non-controlling interest	387	322
Income from investments accounted for on the equity basis	(507)	(784)
Change in non-cash operating items (note 15)	19,663	21,093
	54,131	54,703
Investing activities		
Purchases of investments	(789,314)	(576,053)
Proceeds on sale of investments	744,506	543,156
Repayment of capital lease	327	296
Purchases of property, plant and equipment	(3,293)	(937)
	(47,774)	(33,538)
Financing activities		
Dividends paid	(21,543)	(26,827)
Equity advances	25,000	–
	3,457	(26,827)
Increase (decrease) in cash and cash equivalents	9,814	(5,662)
Cash and cash equivalents, beginning of year	24,135	29,797
Cash and cash equivalents, end of year	$ 33,949	$ 24,135
Supplemental Cash Flow Information:		
Income taxes paid	$ 2,462	$ 307

(see accompanying notes)

December 31, 2005

1. NATURE OF OPERATIONS

Saskatchewan Government Insurance (the Corporation or SGI), which operates under the trade name of SGI CANADA, conducts a property/casualty insurance business in the Province of Saskatchewan and, through its subsidiary SGI CANADA Insurance Services Ltd., in other provinces of Canada. SGI CANADA Insurance Services Ltd. operates in Manitoba directly, in Ontario through its wholly owned subsidiary Coachman Insurance Company (Coachman) and in Prince Edward Island, New Brunswick and Nova Scotia through its 75% owned subsidiary, the Insurance Company of Prince Edward Island (ICPEI).

In many provinces in Canada, automobile insurance premium rates are regulated by provincial government authorities. Regulation of premium rates is based on claims and other costs of providing insurance coverage, as well as projected profit margins. Regulatory approvals can limit or reduce premium rates that can be charged, or delay the implementation of changes in rates. The Corporation's automobile premiums are subject to rate regulation in Ontario and Prince Edward Island, which represent approximately 9% (2004 – 11%) of the Corporation's consolidated net premiums earned in 2005.

SGI was established as a branch of the public service by *The Government of Saskatchewan Act,* 1944, reorganized pursuant to *The Saskatchewan Government Insurance Act,* 1946, and continued under the provisions of *The Saskatchewan Government Insurance Act,* 1980. SGI also acts as administrator of the Saskatchewan Auto Fund under the provisions of *The Automobile Accident Insurance Act.* As a provincial Crown corporation, the Corporation is not subject to federal or provincial income taxes, however its subsidiaries SGI CANADA Insurance Services Ltd., Coachman and ICPEI are subject to federal and provincial income taxes.

As a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), the consolidated financial results of the Corporation are included in the consolidated financial statements of CIC.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Corporation are in accordance with Canadian generally accepted accounting principles. The following are considered to be significant:

Consolidation

The consolidated financial statements include the accounts of the Corporation and the consolidated accounts of its 100% owned subsidiary, SGI CANADA Insurance Services Ltd. All inter-company accounts and transactions have been eliminated on consolidation.

Deferred policy acquisition costs

Premium taxes, commissions and certain underwriting and policy issuance costs are charged to expense over the terms of the insurance policies to which such costs relate. The method followed in determining the deferred policy acquisition costs limits the amount of the deferral to the amount recoverable from unearned premiums after giving consideration to investment income, as well as claim and adjustment expenses expected to be incurred as the premiums are earned.

Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated, as of the date of the business combination, to the Company's reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is not amortized and is tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary.

The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case, the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner, as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the statement of earnings before extraordinary items and discontinued operations.

Investments

Bonds, debentures and mortgages are recorded at amortized cost. Treasury bills, common shares and pooled equity funds are recorded at cost. Dividends on common shares are recognized as income on their record dates. Gains and losses on the sale of investments are recognized on their trade date.

Where the Corporation has investments in shares and exercises significant influence, the investments are accounted for on the equity basis and the Corporation's investment is adjusted for its share of the investee's net earnings or losses and reduced by dividends received.

Investments are written down when there is a decline in value that is other than temporary.

Capital lease

Investment earnings related to the direct financing lease are recognized in a manner that produces a constant rate of return on the investment in the lease. The net investment in the lease is composed of net minimum lease payments less unearned finance income.

Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is recorded on a straight-line basis, commencing in the year in which the assets are placed in service, over their estimated useful lives as follows:

Building	2 1/2%
Computer hardware, system costs and other equipment	20 – 50%

Provision for unpaid claims

The provision for unpaid claims represents an estimate of the total cost of outstanding claims to the year-end date. Included in the estimate are reported claims, claims incurred but not reported and an estimate of adjustment expenses to be incurred on these claims. The provision is calculated without discounting except for long-term disability claims. The estimates are necessarily subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current period.

Premiums

Premiums written are taken into income over the terms of the related policies, no longer than 12 months. Unearned premiums represent the portion of the policy premiums relating to the unexpired term of each policy.

Reinsurance ceded

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts.

Unpaid claims recoverable from reinsurers, reinsurers' share of unearned premiums and unearned reinsurance commissions are estimated in a manner consistent with the method used for determining the provision for unpaid claims, unearned premiums and deferred policy acquisition costs respectively.

Income taxes

The Corporation uses the asset and liability method of accounting for income taxes. Current income taxes are recognized as estimated income taxes payable for the current year. Future income tax assets and liabilities consist of temporary differences between tax and accounting bases of assets and liabilities as well as the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized. The effect on future tax assets and liabilities of a change in tax rates is recognized as income in the period that includes the date of enactment or substantive enactment. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized.

Foreign currency translation

Monetary items denominated in foreign currency are translated at the exchange rate in effect at the year end. Investments, revenues and expenses are translated at the exchange rate in effect at the transaction date. Unrealized gains and/or losses arising on translation are charged to operations in the current year.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and treasury bills with a maturity of 90 days or less from the date of acquisition.

Employees' future benefits

The Corporation provides a defined benefit pension plan and a defined contribution pension plan that provide retirement benefits for its employees.

Under the defined contribution pension plan, the Corporation's obligations are limited to contributions made for current service. When made, these contributions are charged to income.

For the defined benefit plan:

(i) For the purpose of calculating the expected return on plan assets, those assets are valued at market value, which approximates fair value.

(ii) Pension obligations are determined by an independent actuary using the projected benefit method prorated on service and management's best estimate assumptions of expected plan investment performance, salary escalation, age at retirement, mortality of members and future pension indexing, based upon the consumer price index.

(iii) The discount rate used to determine the accrued benefit obligation was determined by reference to market interest rates at the measurement date of high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments.

(iv) Past service costs from plan amendments and the transitional asset are amortized on a straight-line basis over a period of time which is a blending of the expected average remaining service lifetime of the active members and the future life expectancy of the pensioners.

(v) The excess of the net actuarial gain (loss) over 10% of the greater of the accrued benefit obligation and the fair value of the plan assets is amortized over a period of time which is a blending of the expected average remaining service lifetime of the active members and the future life expectancy of the pensioners.

The Corporation provides defined benefit service recognition plans for both management and in-scope (union) employees for the purpose of providing certain retirement benefits. The plan for in-scope employees is effective starting Jan. 1, 2005. The cost of the plans is determined using the projected benefit method prorated on service.

Measurement uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined. The most significant estimation processes are related to the actuarial determination of the provision for unpaid claims (note 8), investment valuation (note 5), income taxes (note 14) and employee future benefits (note 16).

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include $40,823,000 (2004 – $27,385,000) in treasury bills earning an average effective interest rate of 3.3% (2004 – 2.5%).

4. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	(thousands of $)	
	2005	2004
Financed premiums receivable	$ 31,895	$ 31,228
Due from brokers	26,970	26,170
Facility Association receivable	4,366	4,915
Due from reinsurers	1,273	2,196
Accrued investment income	3,390	5,439
Service agreement receivable	1,235	1,157
Amounts recoverable on claims paid	1,420	1,278
Computer purchase plan receivable	576	598
Prepaid expenses	648	621
Other	3356	468
Total accounts receivable	$ 75,129	$ 74,070

Financed premiums receivable represent the portion of our policyholders' monthly premium payments that are not yet due. The majority of our policyholders have the option to pay a portion of the premium when the policy is placed in force and the balance in monthly instalments. The policyholder pays an additional charge for this option, reflecting handling costs and the investment income that would have been earned on such premium, had the total amount been collected at the beginning of the policy period. The additional charge is recognized over the period of the policy.

5. INVESTMENTS

The carrying value and fair value of the Corporation's investments are as follows:

(thousands of $)

	2005		2004	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Short-term investments	$ 20,676	$ 20,676	$ 6,932	$ 6,932
Bonds and debentures	313,899	315,266	271,518	275,744
Pooled equity fund	10,451	11,808	10,193	10,459
Canadian common shares	23,979	40,256	28,386	41,827
U.S. common shares	11,423	14,108	10,323	12,824
Preferred shares	–	–	290	297
Mortgages	15,629	16,212	14,607	15,289
	396,057	418,326	342,249	363,372
Investments accounted for on the equity basis	4,014	4,014	4,018	4,018
Total investments	$ 400,071	$ 422,340	$ 346,267	$ 367,390

Details of significant terms and conditions, exposures to interest rate and credit risks of investments are as follows:

(i) Short-term investments:
Short-term investments are comprised of treasury bills with a maturity of less than one year but greater than 90 days from the date of acquisition. These investments have an average effective interest rate of 3.2% (2004 – 2.5%) and an average remaining term to maturity of 97 days (2004 – 75 days). The Corporation's investment policy states that investments must meet minimum investment standards of R-1, as rated by a recognized credit rating service.

Holdings for any one issuer, other than the Government of Canada or a Canadian province, are limited to 10% of the market value of the combined short-term investment and bond portfolios.

Carrying amounts for short-term investments approximate fair value due to the immediate or short-term nature of these financial instruments.

(ii) Bonds and debentures:
The Corporation's investment policy states that the minimum quality standard for purchase of bonds and debentures is BBB, as rated by a recognized credit rating service.

The Corporation's investment policy limits its holdings for any one issuer, other than the Government of Canada or a Canadian province, to 10% of the market value of the combined bond and short-term investment portfolios. The holdings for any one province are limited to 20% of the market value of the bond portfolio.

The carrying value and average effective interest rates are shown in the following chart by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties. The carrying values are essentially the same as the principal value and therefore the average effective rates are not materially different from the coupon rates. Interest is generally receivable on a semi-annual basis.

(thousands of $)

	2005		2004	
Term to maturity (years)	Carrying Value	Average Effective Rates	Carrying Value	Average Effective Rates
Government of Canada:				
One or less	$ –	–	$ 50	6.5%
After one through five	129,139	3.9%	118,767	4.2%
After five	48,269	4.5%	36,627	4.7%
Canadian provincial & municipal:				
One or less	2,193	6.2%	–	–
After one through five	29,402	5.2%	27,670	5.2%
After five	36,968	5.2%	23,412	5.6%
Canadian corporate:				
After one through five	48,608	4.7%	44,603	4.9%
After five	19,320	5.4%	20,389	5.3%
Total bonds & debentures	$ 313,899		$ 271,518	

For bonds and debentures, the fair values are considered to approximate quoted market values on recognized stock exchanges, based on the latest bid prices.

(iii) Pooled equity fund:
The Corporation owns units in a non-North American pooled equity fund that has no fixed interest rate. Its returns are based on the success of the fund manager.

The fair value of the pooled equity fund is considered to approximate the quoted market values of the underlying investments, based on the latest bid prices.

(iv) Common shares:
Common shares have no fixed maturity dates and are generally not exposed to interest rate risk. Dividends are generally declared on an annual basis. The average effective rate is 2.1% (2004 – 1.7%).

The Corporation's investment policy limits its investment concentration in any one investee or related group of investees to 10% of the market value of the Corporation's common shares. As well, no one holding may represent more than 10% of the voting shares of any corporation.

The fair value of common shares is considered to approximate quoted market values on recognized stock exchanges, based on the latest bid prices.

(v) Mortgages:
The mortgage portfolio consists entirely of Canadian commercial mortgages with average effective interest rates of 6.6% (2004 – 7.0%) with an average maturity of 3.9 years (2004 – 3.7 years). Principal and interest is receivable on a monthly basis.

The Corporation's investment policy limits the maximum aggregate amount of mortgage loans to 20% of the total mortgage portfolio to any one borrower.

For mortgages, the fair value is calculated by discounting scheduled cash flows through to the estimated maturity of the mortgage using current interest rates.

(vi) Investments accounted for on the equity basis:
The Corporation has 9% ownership in a crop hail insurance business and indirectly controls an additional 27% of the business through preferred share ownership in other crop hail insurance companies.

Through a subsidiary, the Corporation has 25% ownership in three companies consisting of Charlie Cooke Insurance Agency Ltd., Atlantic Adjusting & Appraisals Ltd. and Maritime Finance & Acceptance Corporation.

The fair value of investments accounted for on the equity basis is considered to approximate book value.

6. NET INVESTMENT IN CAPITAL LEASE

The Corporation, as lessor, has a 37% interest in a lease agreement with Saskatchewan Property Management, a related party, for a term of 30 years (expiring April 2011) on property in Prince Albert, Saskatchewan. The lease transfers substantially all benefits and risks associated with the ownership of the property to the lessee.

The Corporation's net investment in the capital lease includes the following:

	(thousands of $)	
	2005	2004
Total minimum lease payments receivable ($583,000 per year)	$ 3,060	$ 3,644
Unearned income	(688)	(944)
Net investment in capital lease	$ 2,372	$ 2,700

The fair value of the net investment in the capital lease is $2,874,000 (2004 – $3,194,000). The fair value is calculated by discounting scheduled cash flows through to the estimated expiration of the lease using current interest rates.

7. PROPERTY, PLANT AND EQUIPMENT

The components of the Corporation's investment in property, plant and equipment, as well as the related accumulated amortization, are as follows:

(thousands of $)

	2005			2004
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 972	$ –	$ 972	$ 972
Building	23,035	12,518	10,517	7,801
Computer hardware, system costs and other equipment	16,307	16,100	207	539
Total	$ 40,314	$ 28,618	$ 11,696	$ 9,312

Amortization for the year is $899,000 (2004 – $1,591,000) and is included in administrative expenses on the Consolidated Statement of Operations and Retained Earnings.

8. PROVISION FOR UNPAID CLAIMS

(i) Nature of unpaid claims:

The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex process influenced by a large variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Corporation at the year-end date and therefore estimates are made as to the value of these claims. As well, uncertainty exists for reported claims that have not been settled, as all the necessary information may not be available at the date of the statement of financial position.

Factors used to estimate the provision include: the Corporation's experience with similar cases, historical trends involving claim payments, the characteristics of the class of business, claim severity and claim frequency such as those caused by natural disasters, the effect of inflation on future claims, court decisions and economic conditions. Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as property claims tend to be more reasonably predictable than long-tail claims such as liability claims.

As a result, the establishment of the provision for unpaid claims relies on a number of factors and on the judgment and opinions of a large number of individuals, which necessarily involves risk that the actual results may differ materially from the estimates.

The Corporation settles some long-term disability claims by purchasing structured settlements from various financial institutions. As part of the settlement, the Corporation provides a financial guarantee to claimants in the event the institutions default on scheduled payments. The net present value of these expected payments as at Dec. 31, 2005 totals $48,778,000 (2004 – $48,824,000).

Included in the gross provision for unpaid claims is a provision for unpaid reinsurance assumed claims of $8,250,000 (2004 – $10,962,000). The Corporation discontinued its practice of underwriting reinsurance assumed business in 1985, but remains financially responsible for claims run-off on assumed contracts.

Changes in the estimate for the provision for unpaid claims are as follows:

	(thousands of $) 2005	2004
Net unpaid claims – beginning of year	$ 204,646	$ 186,346
Provision for unpaid service agreement claims	(1,157)	(1,275)
Payments made during the year relating to prior year claims	(56,170)	(56,244)
Excess relating to prior year estimated unpaid claims	(14,491)	(916)
Net unpaid for claims of prior years	132,828	127,911
Provision for claims occurring in the current year	83,622	75,578
Provision for unpaid service agreement claims (note 13)	10,940	1,157
Net unpaid claims – end of year	$ 227,390	$ 204,646

The fair value of the provision for unpaid claims and unpaid claims recoverable from reinsurers has been omitted because it is not practicable to determine fair value with sufficient reliability.

(ii) Type of unpaid claims:
The provision for unpaid claims is summarized by line of business as follows:

	(thousands of $) 2005			2004		
	Gross	Reinsurance Recoverable	Net	Gross	Reinsurance Recoverable	Net
Automobile	$ 141,260	$ 23,936	$ 117,324	$ 141,614	$ 24,859	$ 116,755
Property	45,379	852	44,527	33,555	1,034	32,521
Liability	48,976	2,627	46,349	45,272	2,021	43,251
Assumed	8,250	–	8,250	10,962	–	10,962
Service agreement (note 13)	10,940	–	10,940	1,157	–	1,157
Total	$ 254,805	$ 27,415	$ 227,390	$ 232,560	$ 27,914	$ 204,646

9. EQUITY ADVANCES

The Corporation does not have share capital. However, the Corporation has received equity advances from its parent, CIC, to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC. During 2005, CIC contributed $25 million (2004 – nil) in cash, which is reflected as equity advances on the Consolidated Statement of Financial Position.

10. UNDERWRITING POLICY AND REINSURANCE CEDED

The Corporation seeks to reduce losses that may arise from catastrophes or other events that cause unfavourable underwriting results by reinsuring certain levels of risk with other insurers. The policy of underwriting and reinsuring contracts of insurance, in the main, limits the liability of the Corporation to a maximum amount on any one loss as follows:

	(thousands of $)	
	2005	2004
Dwelling and farm property	$ 400	$ 400
Unlicensed vehicles	500	500
Commercial property	1,000	1,000
Automobile and general liability	1,000	1,000
(subject to filling an annual aggregate deductible of)	1,500	500
Property catastrophe (health care)	7,500	7,500
Property catastrophe (non-health care)	8,500	8,500

The Corporation evaluates and monitors the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvency. The following table sets out the amount by which reinsurance ceded has reduced (increased) the premiums earned, claims incurred, commissions, premium taxes and administrative expenses:

	(thousands of $)	
	2005	2004
Premiums earned	$ 21,643	$ 22,571
Claims incurred	(434)	14,118
Commissions and premium taxes	2,443	2,880
Administrative expenses	1,018	889

11. CLAIM DEVELOPMENT RECOVERY

The Corporation has purchased adverse claim development reinsurance for pre-April 30, 2001 claims of Coachman Insurance Company, a wholly owned subsidiary. The reinsurance has a $3 million deductible and provides coverage up to $8 million. In the current year, development on prior year claims has resulted in an increase to claims incurred and a reduction to the related receivable in the amount of $434,000 (2004 – a reduction to claims incurred and an increase to the related receivable in the amount of $348,000). The total receivable at Dec. 31, 2005 is $2,960,000 (2004 – $3,394,000).

12. INVESTMENT EARNINGS

The components of investment earnings are as follows:

	(thousands of $) 2005	2004
Income from interest	$ 13,073	$ 11,990
Realized gain on sale of investments	11,311	12,443
Income from premium financing	2,310	2,133
Income from dividends	1,159	1,098
Income from capital lease	256	287
Income from investments accounted for on the equity basis	506	784
Investment write downs	(983)	(1,385)
Total investment earnings	$ 27,632	$ 27,350

13. LOSS FROM SERVICE AGREEMENT

During 1998, a subsidiary of the Corporation, Coachman, issued an insurance policy to a vehicle rental company (the rental company). The policy provided bodily injury liability coverage on the rental company's vehicles being driven by its customers. The rental company paid Coachman an annual premium under this policy between $100,000 and $120,000. At the same time, Coachman made an agreement that allowed the rental company to settle and pay all claims submitted by its customers. Because the insurance coverage was in the name of Coachman, the rental company was required to report to Coachman quarterly on the status of all reported claims and the provision for unpaid claims. As security to guarantee the provision for unpaid claims, a trust account was to be maintained in an amount that would meet the funding of the outstanding liabilities related to the policy.

The agreement with the rental company expired on March 31, 2005. Subsequent to the expiration of the contract, the rental company filed for voluntary receivership. During the receivership proceedings, it was determined that the rental company had not reported claims correctly to Coachman, nor had it deposited the correct amounts in the trust account. Coachman has estimated the provision for unpaid claims relating to the insurance policy to be $10,940,000 (note 8). A receivable has also been recorded of $1,235,000 (note 4) based on the balance in the trust account at Dec. 31, 2005. The shortfall of $9,705,000 has been charged to current year operations.

Coachman is attempting to recover the shortfall related to this service agreement. Any recovery will be accounted for in the year of receipt.

14. INCOME TAXES

The Corporation's provision for (recovery of) income taxes is as follows:

	(thousands of $) 2005	2004
Current	$ 1,854	$ 1,116
Future	(2,738)	102
Total income taxes (recovery)	$ (884)	$ 1,218

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates to income before income taxes and non-controlling interest. The reasons for the differences are as follows:

	(thousands of $) 2005	2004
Income before income taxes and non-controlling interest from taxable subsidiaries	$ 3,347	$ 4,341
Combined federal and provincial tax rate	38.84%	37.62%
Computed tax expense based on combined rate	$ 1,300	$ 1,633
Increase (decrease) resulting from:		
Investment earnings not subject to taxation	(58)	(85)
Non-deductible expenses for tax purposes	20	20
Valuation allowance	(2,149)	(283)
Other	3	(67)
Total income taxes (recovery)	$ (884)	$ 1,218

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities are presented below:

	(thousands of $) 2005	2004
Future income tax assets		
Tax loss carryforward	$ 8,446	$ –
Provision for unpaid claims	2,093	9,404
Unearned premiums	–	3,889
Other	34	35
	10,573	13,328
Valuation allowance	(5,926)	(8,075)
Total future income tax assets	4,647	5,253
Future income tax liabilities		
Bonds and debentures	1,120	1,103
Unpaid claims recoverable from reinsurers	718	3,482
Reinsurers' share of unearned premiums	–	597
Total future income tax liabilities	1,838	5,182
Net future income tax assets	$ 2,809	$ 71

The Corporation has non-capital loss carryforwards of approximately $23,385,000 (2004 - nil) that expire in 2015.

15. CHANGE IN NON-CASH OPERATING ITEMS

The change in non-cash operating items is comprised of the following:

	(thousands of $) 2005	2004
Accounts receivable	$ (982)	$ (6,704)
Deferred policy acquisition costs	(1,392)	(2,517)
Reinsurers' share of unearned premiums	1,113	(257)
Unpaid claims recoverable from reinsurers	499	(3,132)
Accounts payable and accrued charges	2,264	1,441
Premium taxes payable	352	795
Amounts due to reinsurers	1,476	(109)
Unearned reinsurance commissions	(33)	122
Unearned premiums	3,903	10,022
Provision for unpaid claims	12,463	21,432
	$ 19,663	$ 21,093

16. EMPLOYEE FUTURE BENEFITS

(i) Defined benefit pension plan:

The Corporation has a defined benefit pension plan for certain of its employees that has been closed to new membership since 1980. Current service costs of this plan are charged to earnings on the basis of actuarial valuations, the most recent valuation being as of Dec. 31, 2002. The next valuation, to be completed during the spring of 2006, will have a valuation date of Dec. 31, 2005. The plan and the valuation results of the plan include both employees of the Corporation and the Saskatchewan Auto Fund.

The actuarial valuation includes a provision for uncommitted and ad hoc benefit increases, and is measured using management's best estimates based on assumptions that reflect the most probable set of economic circumstances and planned courses of action. The estimate, therefore, involves risks that the actual amount may differ materially from the estimate. Results from the latest valuation as at Dec. 31, 2002, projected to Dec. 31, 2005, and the major assumptions used in the valuation, are as follows:

Economic assumptions:

	2005	2004
Discount rate – beginning of period	5.60%	6.10%
Discount rate – end of period	5.00%	5.60%
Expected return on plan assets	6.75%	6.75%
Inflation rate	2.50%	3.00%
Expected salary increase	3.50%	4.00%
Post-retirement index	50% of CPI	50% of CPI
Remaining service life of active members in years (EARSL)	5	5

Information about the Corporation's defined benefit pension plan is as follows:

	(thousands of $)	
	2005	2004
Accrued benefit obligation		
Accrued benefit obligation, beginning of year	$ 44,721	$ 49,777
Current service cost	252	247
Interest cost	2,416	2,738
Benefits paid	(3,577)	(10,216)
Actuarial loss on accrued benefit obligation	1,369	2,175
Accrued benefit obligation, end of year	$ 45,181	$44,721

	2005 (thousands of $)	2004 (thousands of $)
Plan assets		
Fair value of plan assets, beginning of year	$ 44,377	$ 50,658
Actual return on plan assets	4,411	3,859
Employee contributions	69	76
Benefits paid	(3,577)	(10,216)
Fair value of plan assets, end of year	$ 45,280	$ 44,377
Funded status - plan surplus (deficit)	$ 99	$ (344)
Unamortized transitional asset	(3,111)	(3,854)
Unamortized net actuarial losses	3,449	3,544
Accrued pension asset (liability)	$ 437	$ (654)
Accrued pension asset (liability) – SGI	$ 147	$ (210)
Accrued pension asset (liability) – Saskatchewan Auto Fund	$ 290	$ (444)

The accrued pension asset of $147,000 (2004 – accrued pension liability of $210,000) is included in accounts receivable (2004 – accounts payable and accrued charges) on the Consolidated Statement of Financial Position.

The asset allocation of the defined benefit pension plan assets is as follows:

Asset Category	Target Range	Per cent of Plan Assets at Dec. 31 2005	2004
Short-term investments	3 – 20%	5%	3%
Bonds and debentures	40 – 70%	53%	55%
Canadian equities	10 – 30%	16%	17%
U.S. equities	Total foreign	14%	14%
Non-North American equities	18 – 30%	12%	11%

Pension income for the defined benefit pension plan is as follows:

	2005 (thousands of $)	2004 (thousands of $)
Current service cost	$ 183	$ 171
Interest cost	2,416	2,738
Expected return on pension plan assets	(2,877)	(3,077)
Amortization of net transitional asset	(743)	(743)
Amortization of actuarial gains	(70)	(70)
Pension income	$ (1,091)	$ (981)
Pension income – SGI	$ (367)	$ (314)
Pension income – Saskatchewan Auto Fund	$ (724)	$ (667)

The pension income of $367,000 (2004 – $314,000) is recorded in administrative expenses on the Consolidated Statement of Operations and Retained Earnings.

(ii) Defined contribution pension plan:
The Corporation also has employees who are members of the Capital Pension Plan, which is a defined contribution pension plan. The Corporation's financial obligation is limited to matching employee contributions of 5.5% to the plan.

Pension expense for the defined contribution pension plan is as follows:

	(thousands of $) 2005	2004
Current service cost	$ 3,969	$ 3,825
Pension expense – SGI	$ 1,334	$ 1,226
Pension expense – Saskatchewan Auto Fund	$ 2,635	$ 2,599

The pension expense of $1,334,000 (2004 – $1,226,000) is recorded in administrative expenses on the Consolidated Statement of Operations and Retained Earnings.

(iii) Defined benefit service recognition plans:
Significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligation at Dec. 31 are:

	2005	2004
Discount rate	4.7%	5.1%
Expected salary increase	4.0%	4.0%
EARSL – management	11	10
EARSL – in-scope	10	–

Information about the defined benefit service recognition plans is as follows:

	(thousands of $) 2005	2004
Benefit expense	$ 2,525	$ 384
Accrued benefit obligation	$ 14,781	$ 3,255
Unamortized past service costs, net actuarial losses and transitional asset	(10,484)	(824)
Accrued benefit liability	$ 4,297	$ 2,431
Accrued benefit liability – SGI	$ 1,444	$ 823
Accrued benefit liability – Saskatchewan Auto Fund	$ 2,853	$ 1,608

The accrued benefit liability of $1,444,000 (2004 – $823,000) is recorded in accounts payable and accrued charges on the Consolidated Statement of Financial Position.

17. RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Transactions and amounts outstanding at year end are as follows:

Category	(thousands of $) 2005	2004
Accounts receivable	$ 400	$ 378
Deferred policy acquisition costs	6,386	6,126
Investments	6,505	4,194
Accounts payable and accrued charges	99	58
Dividends payable	7,269	5,932
Premium taxes payable	12,537	11,988
Unearned premiums	1,805	1,743
Provision for unpaid claims	678	1,359
Gross premiums written	4,730	4,559
Net premiums earned	4,708	4,313
Claims incurred	1,069	2,032
Administrative expenses	1,562	1,765
Premium taxes	12,277	11,537
Investment earnings	330	253

The Corporation acts as administrator of the Saskatchewan Auto Fund. Administrative and claim adjustment expenses incurred by the Corporation are allocated to the Corporation and the Saskatchewan Auto Fund directly or on the basis of specific distributions. Amounts incurred by the Corporation and charged to the Saskatchewan Auto Fund were $78,924,000 (2004 – $73,303,000) and accounts payable are $1,743,000 (2004 – $1,764,000).

The Corporation has direct premiums that are brokered through Charlie Cooke Insurance Agency Ltd., pays claim adjusting fees to Atlantic Adjusting & Appraisals Ltd. and has premiums financed for policyholders by Maritime Finance & Acceptance Corporation. These companies are affiliated with the minority shareholder of ICPEI, who is a member of ICPEI's senior management. The policies written and the claim adjusting expenses paid are routine operating transactions in the normal course of business. Transactions and amounts outstanding at year end are as follows:

Category	(thousands of $) 2005	2004
Accounts receivable	$ 487	$ 497
Accounts payable	882	200
Premiums written	8,451	8,748
Claims incurred	411	435
Commissions	2,034	1,409
Premiums financed	3,384	3,444

Other related party transactions are described separately in the notes.

18. FAIR VALUES

The fair value of financial assets and liabilities, other than investments (note 5), net investment in capital lease (note 6), unpaid claims and unpaid claims recoverable from reinsurers (note 8) approximate carrying value due to their immediate or short-term nature.

19. FACILITY ASSOCIATION PARTICIPATION

Through its subsidiaries, the Corporation is a participant in various automobile risk sharing pools in Ontario and Prince Edward Island, whereby companies in the industry share resources to provide insurance coverage to high risk insureds.

Facility Association transactions recorded in the Corporation's financial results are as follows:

	(thousands of $) 2005	2004
Gross premiums written	$ 1,486	$ 2,340
Net premiums earned	$ 1,705	$ 3,048
Claims incurred	305	1,236
Commissions	175	126
Premium taxes	58	100
Administrative expenses	223	406
Total claims and expenses	761	1,868
Underwriting profit	944	1,180
Investment earnings	114	182
Net income	$ 1,058	$ 1,362
Facility Association receivable	$ 4,367	$ 4,915
Unearned premiums	764	982
Provision for unpaid claims	3,469	4,187
Facility Association payable	3,504	–

20. SEGMENTED INFORMATION

The Corporation provides property and casualty insurance through four operating segments: Saskatchewan, Manitoba, Ontario and the Maritimes (where the Maritimes represents Prince Edward Island, New Brunswick and Nova Scotia). These operating segments correspond with the legal entities that make up the Corporation, as discussed in note 1. The performance of each operating segment is reported separately to the Corporation's Board of Directors.

(thousands of $)

2005	Saskatchewan	Manitoba	Ontario	Maritimes	Consolidation Adjustments	Total
Net premiums written	$240,986	$ 11,749	$ 25,436	$ 8,213	$ –	$286,384
Net premiums earned	$235,960	$ 11,323	$ 25,518	$ 8,348	$ –	$281,149
Claims incurred	139,354	7,482	13,649	1,978	–	162,463
Other expenses	87,217	4,494	7,192	2,758	–	101,661
Underwriting profit (loss)	9,389	(653)	4,677	3,612	–	17,025
Investment earnings	22,216	1,100	3,502	814	–	27,632
Income before the following:	31,605	447	8,179	4,426	–	44,657
Loss from service agreement	–	–	9,705	–	–	9,705
Income taxes (recovery)	–	103	(2,689)	1,702	–	(884)
Non-controlling interest	–	–	–	–	636	636
Net income	$ 31,605	$ 344	$ 1,163	$ 2,724	$ (636)	$ 35,200
Total assets	$424,099	$ 66,149	$113,667	$ 29,190	$ (34,937)	$598,168
Shareholder's equity	$ 90,115	$ 29,644	$ 17,313	$ 7,915	$ (1,623)	$143,364

(thousands of $)

2004	Saskatchewan	Manitoba	Ontario	Maritimes	Consolidation Adjustments	Total
Net premiums written	$229,462	$ 11,010	$ 29,129	$ 8,359	$ –	$277,960
Net premiums earned	$220,279	$ 10,493	$ 27,866	$ 8,849	$ –	$267,487
Claims incurred	121,943	5,612	24,542	5,533	–	157,630
Other expenses	80,580	4,339	7,103	1,961	–	93,983
Underwriting profit (loss)	17,756	542	(3,779)	1,355	–	15,874
Investment earnings	21,127	1,186	4,333	704	–	27,350
Income before the following:	38,883	1,728	554	2,059	–	43,224
Income taxes (recovery)	–	580	(128)	766	–	1,218
Non-controlling interest	–	–	–	–	322	322
Net income	$ 38,883	$ 1,148	$ 682	$ 1,293	$ (322)	$ 41,684
Total assets	$386,796	$ 28,602	$106,487	$ 24,885	$(17,853)	$528,917
Shareholder's equity	$ 81,390	$ 8,482	$ 11,150	$ 6,258	$ (1,236)	$106,044

21. COMMITMENTS AND CONTINGENCIES

The Corporation has telecommunication contracts with a related party that total $1,245,000 (2004 – $792,000 a year) for services from 2006 to 2009. An indirect subsidiary of the Corporation, Coachman, has a lease for its office premises expiring Dec. 31, 2008 at an annual rent of $180,000.

In common with the insurance industry in general, the Corporation is subject to litigation arising in the normal course of conducting its insurance business. The Corporation is of the opinion that this litigation will not have a significant effect on the financial position or results of operation of the Corporation.

22. COMPARATIVE FINANCIAL INFORMATION

For comparative purposes, certain 2004 balances have been reclassified to conform to 2005 financial statement presentation.

CORPORATE GOVERNANCE

The Canadian Securities Administrators and securities regulators across Canada have implemented governance policies for publicly traded companies. National Policy 58-201 and National Instrument 58-101 came into effect on June 30, 2005. While Saskatchewan Government Insurance is not publicly traded and therefore not required to comply with these guidelines, they provide an excellent benchmark to measure good governance practices.

NATIONAL POLICY 58-201 CORPORATE GOVERNANCE GUIDELINES	
Guideline	**Saskatchewan Government Insurance**
Composition of the Board 1. The board should have a majority of independent directors.	Yes. The board of directors is constituted of a majority of independent directors.
2. The chair of the board should be an independent director. Where this is not appropriate, an independent director should be appointed to act as "lead director." However, either an independent chair or an independent lead director should act as the effective leader of the board and ensure that the board's agenda will enable it to successfully carry out its duties.	Yes. The Chair of the board, Nancy Hopkins, is an independent director.
Meetings of Independent Directors 3. The independent directors should hold regularly scheduled meetings at which non-independent directors and members of management are not in attendance.	Yes. The board of directors has meetings in-camera, during which no management are in attendance, at every board and committee meeting, as well as on an as-required basis. In addition, the board holds regular in-camera meetings where non-independent directors and members of management are not in attendance.
Board Mandate 4. The board should adopt a written mandate in which it explicitly acknowledges responsibility for the stewardship of the issuer, including responsibility for: (a) to the extent feasible, satisfying itself as to the integrity of the chief executive officer (the CEO) and other executive officers and that the CEO and other executive officers create a culture of integrity throughout the organization;	Yes. The board has approved Terms of Reference (Mandate) which explicitly acknowledge responsibility for the stewardship of the Corporation. Yes. The board has approved the Corporate values to which all employees, including the CEO and senior management, are expected to operate.
(b) adopting a strategic planning process and approving, on at least an annual basis, a strategic plan which takes into account, among other things, the opportunities and risks of the business;	Yes. The board of directors holds an annual multi-day strategic planning session. This session provides the basis of the Corporation's strategic plan and initiatives, as well as direction to management in the formation of Corporation's operating budget and goals. Further, the board is provided with periodic updates during the year on the progress of the corporate strategic initiatives.

NATIONAL POLICY 58-201 CORPORATE GOVERNANCE GUIDELINES	
Guideline	**Saskatchewan Government Insurance**
(c) the identification of the principal risks of the issuer's business, and ensuring the implementation of appropriate systems to manage these risks;	Yes. The board of directors undertakes a process to identify the principal risks of the business, to achieve a proper balance between risks incurred and potential returns and to oversee the implementation of appropriate systems to manage the risks. The board of directors has charged the Audit and Finance committee with responsibility for this function and they report to the board on those risks at least on an annual basis.
(d) succession planning (including appointing, training and monitoring senior management);	Yes. The board of directors has charged the Governance and Human Resources committee with responsibility for the Corporation's succession plan. The committee reviews the plan on an annual basis and reports its findings to the board.
(e) adopting a communication policy for the issuer;	Yes. The Corporation has a formal communications policy which has been approved by the board of directors.
(f) the issuer's internal control and management information systems; and	Yes.
(g) developing the issuer's approach to corporate governance, including developing a set of corporate governance principles and guidelines that are specifically applicable to the issuer.	Yes.
The written mandate of the board should also set out: (i) measures for receiving feedback from stakeholders (e.g., the board may wish to establish a process to permit stakeholders to directly contact the independent directors), and (ii) expectations and responsibilities of directors, including basic duties and responsibilities with respect to attendance at board meetings and advance review of meeting materials. In developing an effective communication policy for the issuer, issuers should refer to the guidance set out in National Policy 51-201 Disclosure Standards.	Yes. The Corporation also undertakes research annually on behalf of the board. Position descriptions for directors are in the development stage and are expected to be approved and in place in 2006.
Position Descriptions 5. The board should develop clear position descriptions for the chair of the board and the chair of each board committee. In addition, the board, together with the CEO, should develop a clear position description for the CEO, which includes delineating management's responsibilities. The board should also develop or approve the corporate goals and objectives that the CEO is responsible for meeting.	Yes. The board has position descriptions for the board chair, the committee chairs and the CEO, as well, the board Terms of Reference include management responsibilities.

NATIONAL POLICY 58-201 CORPORATE GOVERNANCE GUIDELINES	
Guideline	**Saskatchewan Government Insurance**
Orientation and Continuing Education 6. The board should ensure that all new directors receive a comprehensive orientation. All new directors should fully understand the role of the board and its committees, as well as the contribution individual directors are expected to make (including, in particular, the commitment of time and resources that the issuer expects from its directors). All new directors should also understand the nature and operation of the issuer's business.	Yes. The Terms of Reference for the board specify the responsibility for director training, which has been delegated to the Governance committee. New directors receive an orientation which provides a overview of the Corporation, its operations and its industry. Further, directors are educated on the role of the board, its committees and the expectation of directors. The director position description, which is in development, describes a director's responsibilities.
7. The board should provide continuing education opportunities for all directors, so that individuals may maintain or enhance their skills and abilities as directors, as well as to ensure their knowledge and understanding of the issuer's business remains current.	Yes. The board provides opportunities for all directors to increase their knowledge of issues and subjects facing the Corporation. Further, Crown Investments Corporation provides annual director training opportunities to all Crown corporation directors.
Code of Business Conduct and Ethics 8. The board should adopt a written code of business conduct and ethics (a code). The code should be applicable to directors, officers and employees of the issuer. The code should constitute written standards that are reasonably designed to promote integrity and to deter wrongdoing. In particular, it should address the following issues: (a) conflicts of interest, including transactions and agreements in respect of which a director or executive officer has a material interest;	Yes. The board has adopted a written Code of Conduct for directors and a Corporate Code of Ethics and Conduct which is applicible to directors, officers and employees. Yes. Conflicts of interest are addressed in both the Code of Conduct for Directors and the Corporate Code of Ethics and Conduct.
(b) protection and proper use of corporate assets and opportunities;	Yes. The protection and proper use of corporate assets and opportunities are addressed in both the Code of Conduct for Directors and the Corporate Code of Ethics and Conduct.
(c) confidentiality of corporate information;	Yes. The confidentiality of corporate information is addressed in both the Code of Conduct for Directors and the Corporate Code of Ethics and Conduct.
(d) fair dealing with the issuer's security holders, customers, suppliers, competitors and employees;	Yes. The fair dealing with customers, suppliers, competitors and employees is addressed in the Corporate Code of Ethics and Conduct.
(e) compliance with laws, rules and regulations; and	Yes. The compliance with laws, rules and regulations is addressed in both the Code of Conduct for Directors and the Corporate Code of Ethics and Conduct.

NATIONAL POLICY 58-201 CORPORATE GOVERNANCE GUIDELINES	
Guideline	**Saskatchewan Government Insurance**
(f) reporting of any illegal or unethical behaviour.	Yes. The reporting of any illegal or unethical behaviour is addressed in the Corporate Code of Ethics and Conduct, and more specifically in the Whistleblower Policy.
9. The board should be responsible for monitoring compliance with the code. Any waivers from the code that are granted for the benefit of the issuer's directors or executive officers should be granted by the board (or a board committee) only. Although issuers must exercise their own judgment in making materiality determinations, the Canadian securities regulatory authorities consider that conduct by a director or executive officer which constitutes a material departure from the code will likely constitute a "material change" within the meaning of National Instrument 51-102 Continuous Disclosure Obligations. National Instrument 51-102 requires every material change report to include a full description of the material change. Where a material departure from the code constitutes a material change to the issuer, we expect that the material change report will disclose, among other things: • the date of the departure(s), • the party(ies) involved in the departure(s), • the reason why the board has or has not sanctioned the departure(s), and • any measures the board has taken to address or remedy the departure(s).	Yes. The Human Resources committee receives an annual report concerning compliance with the code. On an as required basis, the Human Resources committee may grant a waiver from the code. Not applicable.
Nomination of Directors 10. The board should appoint a nominating committee composed entirely of independent directors.	Yes. The board has charged the Governance committee with the responsibility of the nomination of directors. The committee is comprised of entirely independent directors.
11. The nominating committee should have a written charter that clearly establishes the committee's purpose, responsibilities, member qualifications, member appointment and removal, structure and operations (including any authority to delegate to individual members and subcommittees), and manner of reporting to the board. In addition, the nominating committee should be given authority to engage and compensate any outside advisor that it determines to be necessary to permit it to carry out its duties. If an issuer is legally required by contract or otherwise to provide third parties with the right to nominate directors, the selection and nomination of those directors need not involve the approval of an independent nominating committee.	Yes. The Governance committee's charter is contained within the Terms of Reference.
12. Prior to nominating or appointing individuals as directors, the board should adopt a process involving the following steps:	

NATIONAL POLICY 58-201 CORPORATE GOVERNANCE GUIDELINES	
Guideline	**Saskatchewan Government Insurance**
(a) Consider what competencies and skills the board, as a whole, should possess. In doing so, the board should recognize that the particular competencies and skills required for one issuer may not be the same as those required for another.	Yes. The Governance committee undertakes a skills assessment on an annual basis.
(b) Assess what competencies and skills each existing director possesses. It is unlikely that any one director will have all the competencies and skills required by the board. Instead, the board should be considered as a group, with each individual making his or her own contribution. Attention should also be paid to the personality and other qualities of each director, as these may ultimately determine the boardroom dynamic.	Yes. The Governance committee undertakes a needs assessment on an annual basis.
The board should also consider the appropriate size of the board, with a view to facilitating effective decision-making.	Yes. The Governance committee reviews and recommends the size of the board.
In carrying out each of these functions, the board should consider the advice and input of the nominating committee.	Yes. The Governance committee reports regularly to the board and when required makes recommendations. It should be noted however that director appointments are made by Order-in-Council.
13. The nominating committee should be responsible for identifying individuals qualified to become new board members and recommending to the board the new director nominees for the next annual meeting of shareholders.	Yes. The Governance committee has a recruitment and selection process which it undertakes prior to making recommendations for appointments to the board of directors and Crown Investments Corporation.
14. In making its recommendations, the nominating committee should consider:	
(a) the competencies and skills that the board considers to be necessary for the board, as a whole, to possess;	Yes. The Governance committee reviews the competencies and skills required for the board as a whole.
(b) the competencies and skills that the board considers each existing director to possess; and	Yes. The Governance committee reviews the competencies and skills of each of the directors.
(c) the competencies and skills each new nominee will bring to the boardroom.	Yes. The Governance committee reviews the competencies and skills of nominee directors.
The nominating committee should also consider whether or not each new nominee can devote sufficient time and resources to his or her duties as a board member.	Yes. During the recruitment and selection process, the Governance committee ensures that potential nominees understand the requirements and have sufficient time and resources to devote to the board member responsibilities.
Compensation 15. The board should appoint a compensation committee composed entirely of independent directors.	Yes. The board has delegated the responsibilities for compensation to the Human Resources committee.

NATIONAL POLICY 58-201 CORPORATE GOVERNANCE GUIDELINES	
Guideline	**Saskatchewan Government Insurance**
16. The compensation committee should have a written charter that establishes the committee's purpose, responsibilities, member qualifications, member appointment and removal, structure and operations (including any authority to delegate to individual members or subcommittees), and the manner of reporting to the board. In addition, the compensation committee should be given authority to engage and compensate any outside advisor that it determines to be necessary to permit it to carry out its duties.	Yes. The Human Resources committee's charter is contained within the Terms of Reference. The committee has the authority to engage and compensate any outside advisor it may determine is necessary to carry out its duties.
17. The compensation committee should be responsible for: (a) reviewing and approving corporate goals and objectives relevant to CEO compensation, evaluating the CEO's performance in light of those corporate goals and objectives, and determining (or making recommendations to the board with respect to) the CEO's compensation level based on this evaluation;	Yes. The Human Resources committee undertakes a detailed CEO evaluation on an annual basis. As part of that evaluation, the committee reviews the previous corporate goals and objectives and evaluates the CEO's performance against those goals and objectives. The findings of the evaluation and any compensation changes resulting from the review are recommended to the board.
(b) making recommendations to the board with respect to non-CEO officer and director compensation, incentive-compensation plans and equity-based plans; and	Yes. The Human Resources committee reviews and recommends to the board and Crown Investments Corporation of Saskatchewan any changes to compensation.
(c) reviewing executive compensation disclosure before the issuer publicly discloses this information.	Not applicable. Individuals reporting to the CEO, which include all executive members, are required by legislation to file and report any changes in their compensation to the Clerk of the Saskatchewan Legislature within a 14 day period of time. Further, by policy of the Crown and Central Agencies committee of the Legislature, the Corporation is required to file an annual payee list which also contains the compensation of all members of the executive.
Regular Board Assessments 18. The board, its committees and each individual director should be regularly assessed regarding his, her or its effectiveness and contribution. An assessment should consider: (a) in the case of the board or a board committee, its mandate or charter, and	Yes. The board conducts on a rotational basis peer assessments and reviews of the board and the chair. Yes. The board and its committees review their terms of reference on an as needed basis and at least every three years.
(b) in the case of an individual director, the applicable position description(s), as well as the competencies and skills each individual director is expected to bring to the board.	Yes. The board has a position description for directors, further, individual director's skills and competencies are reviewed as part of the regular assessments.

GLOSSARY OF TERMS

Broker
A person who negotiates insurance policies on behalf of the insurance company, receiving a commission from the insurance company for policies placed and other services rendered.

Casualty insurance
One of the three main groups of insurance products (the others are life insurance and property insurance). This type of insurance is primarily concerned with losses caused by injuries to others than the policyholder and the resulting legal liability imposed on the insured.

Catastrophe reinsurance
A policy purchased by a ceding company that indemnifies that company for the amount of loss in excess of a specified retention amount subject to a maximum specific limit from a covered catastrophic event.

Cede, Cedant, Ceding company
An insurance company that transfers some or all of the risks in active policies to another company cedes its business. The company transferring its risks is known as the cedant or ceding company.

Claims incurred
The totals for all claims paid and related claim expenses during a specific accounting period(s) plus the changes in IBNR reserve for the same period of time.

Combined ratio
A measure of total expenses (claims and administration) in relation to net premiums earned as determined in accordance with GAAP. If this ratio is below 100%, there was a profit from underwriting activities while over 100% represents a loss from underwriting.

Facility Association
Participation in automobile risk-sharing pools whereby P&C insurance companies share resources to provide insurance coverage to high-risk individuals or businesses.

GAAP
Generally accepted accounting principles. These are defined in the handbook prepared by the Canadian Institute of Chartered Accountants.

Gross Premiums Written (GPW)
Total premiums, net of cancellations, on insurance underwritten during a specified period of time before deduction of reinsurance premiums ceded.

IBNR reserve
Abbreviation for "incurred but not reported." A reserve that estimates claims that have been incurred by a policyholder but not reported to the insurance company. It also includes unknown future developments on claims that have been reported.

Loss ratio (Claims ratio)
Claims incurred net of reinsurance expressed as a percentage of net premiums earned for a specified period of time.

Minimum Capital Test (MCT)
A solvency ratio used by regulators to assess a company's financial strength. This ratio measures capital requirements in relation to the degree of risk undertaken by a particular company. The minimum amount required by this ratio, as determined by the regulators, is 1.5 or 150% of capital available over capital required.

Net Premiums Earned (NPE)
The portion of net premiums written that is recognized for accounting purposes as revenue during a period.

Net Premiums Written (NPW)
Gross premiums written for a given period of time less premiums ceded to reinsurers during such period.

Net Risk Ratio (NRR)
A ratio of net premiums written to equity. This ratio indicates the ability of a company's financial resources to withstand adverse underwriting results. The regulatory guideline is a ratio of 3.0 or lower.

GLOSSARY of TERMS

Premium
The dollars that a policyholder pays today to insure a specific set of risk(s). In theory, this reflects the current value of the claims that a pool of policyholders can be expected to make in the future, as well as the costs of administering those potential claims.

Premium tax
A tax collected by insurance companies from policyholders and paid to various provincial and territorial governments. It is calculated as a percentage of gross premiums written.

Property insurance
One of the three main groups of insurance products (the others are life insurance and casualty insurance). This type of insurance provides coverage to a policyholder for an insurable interest in tangible property for property loss, damage or loss of use.

Prudent person
A common law standard against which those investing the money of others are judged against.

Redundancy & Deficiency
Claims reserves are constantly re-evaluated. An increase in a reserve from the original estimate is a deficiency while a decrease to the original reserve is called a redundancy.

Reinsurance
In its simplest form, insurance for an insurance company. It is an agreement where the reinsurer agrees to indemnify the ceding company against all or a portion of the insurance or reinsurance risk underwritten by the ceding company under one or more policies.

Reinsurer
A company that purchases the cedant risk in the reinsurance contract.

Underwriting
The process of reviewing applications submitted for insurance coverage, deciding whether to insure all or part of the coverage requested and calculating the related premium for the coverage offered.

Underwriting capacity
The maximum amount that a company can underwrite. It is based on retained earnings and investment capital held by the company. Using reinsurance allows a company to increase its underwriting capacity as it reduces the company's exposure to particular risks.

Underwriting profit/loss
The difference between net premiums earned and the sum of net claims incurred, commissions, premium taxes and all general and administrative expenses.

Unearned premiums
The difference between net premiums written and net premiums earned. It reflects the net premiums written for that portion of the term of its insurance policies that are deferred to subsequent accounting periods.

BOARD of DIRECTORS

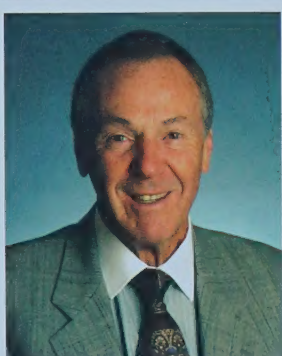
Nancy E. Hopkins (Chair)

Lawyer, McDougall Gauley,
Saskatoon, SK

Audit and Finance Committee,
Governance and Human Resources
Committee, Investment Committee

Joan F.D. Baldwin

Doctor, Regina, SK
Audit and Finance Committee
(Chair)



J. Walter Bardua (Vice Chair)

Retired Insurance Professional,
Nanaimo, BC
Governance and Human Resources
Committee (Chair)

Joan D. Bellegarde

Executive Director, File Hills
Qu'Appelle Tribal Council,
Fort Qu'Appelle, SK
Investment Committee

Kendra Chesney

Information Technology Analyst, SGI,
Regina, SK
Investment Committee

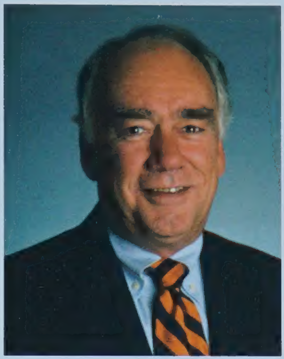
Merin Coutts

Regional Sales Manager,
Shaw Cable Systems G.P.,
Saskatoon, SK
Audit and Finance Committee

Robert Fenwick

Retired Insurance Professional,
Markinch, SK
Governance and Human Resources
Committee

BOARD of DIRECTORS



W.J.A. (Bill) Heidt

Retired Insurance Professional,
Kelowna, BC
Investment Committee (Chair)

Arleen Hynd

Retired Chartered Accountant,
Regina, SK
Audit and Finance Committee,
Governance and Human Resources Committee

Dale Bloom

Corporate Secretary,
Crown Investments Corporation,
Regina, SK

Wayne Hovdebo

Farmer, Birch Hills, SK
Audit and Finance Committee

Jim Mills

Retired Insurance Broker,
Mayor, Elrose,
Elrose, SK
Investment Committee

Ron Osika

Retired RCMP
Former Saskatchewan Crop Insurance Executive, Mayor, Fort Qu'Appelle,
Fort Qu'Appelle, SK
Governance and Human Resources Committee

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